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CONTENTS

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BOOKS...
For the Business Man

REPORT ON ENGLAND
RALPH INGERSOLL

Simon & Schuster. 202 pages. $1.50

Mr. Ingersoll writes of the amazing courage of the English after a terrible and brutal Blitzkrieg. He explains in his book, "Report on England," how Hitler lost his big chance. Tht author believes that the English people could not have held out much longer after the terrible beating they took during the seventh and fifteenth of September. Since that time England has come a long way in preparing each citizen for every emergency.

Mr. Ingersoll feels that it is still possible for Hitler to win the war, but he also states that the Blitzkrieg has failed.

The book, which is a consolidation and enlargement of the author's reports to his newspaper, is well worth reading.

»» • ««

JUGGERNAUT OVER HOLLAND
E. NICOLAS VAN KLEFFENS

N. Y. Columbia Univ. Press. 195 pp. $2.00

"Juggernaut Over Holland" tells the story of the invasion of the Netherlands by the Germans. The author explains why certain bridges were not blown up by the Dutch, and of the important part trickery, deceit and fifth column activity played in the crushing of this courageous little nation. All in all, it contains a lesson for the whole world, and we can only hope that it will be heeded.

»» • ««

OUR FUTURE IN ASIA
ROBERT AURA SMITH

Viking Press, 293 pg. $3.00

Robert Aura Smith in this timely book tackles a question that very few Americans really know anything about . . . our stake in Asia . . . the extent that the military security of the United States, our economic health, and national honor depends upon the maintenance of the now-threatened resources and markets in the South China Sea. He examines with particular acuteness the new Japanese attitude and estimates the probable effectiveness of our resistance to it.

»» • ««

THE U. S. AND JAPAN MUST WORK TOGETHER
WILLIAM J. BAXTER

Inter. Econ. Research Bur., 100 pg. $2.00

This book shows long study and association with Japan. Mr. Baxter proves what tremendous strides the Japanese have made and how their united efforts are producing amazing results. The author gives facts and reasons for his statement, "The United States and Japan must work together" and even if you don't agree with him you will find the book interesting and enlightening. For any one interested in the economic relations between the United States and Japan this book is a must for their library.

»» • ««

These books may be ordered from The Magazine of Wall Street book department.

With The Editors

Drafting Brains for Defense

Scores of top-flight industrial executives have been brought into Government service at Washington to do their bit in the organization and guidance of the defense program.

And in scores of corporations the collective administrative brains of managerial and supervisory staffs—from presidents down to plant managers and engineers—are concentrated on the tough problems of defense production. The hours of work are limited only by human endurance. There is not much profit in this business and very little glory for the administrators.

Business executives have been in the political dog house in recent years and too few people, especially at Washington, have realized their importance in our economic scheme of things. Neither Labor nor Capital can produce our urgently needed armaments except as skillfully linked and directed by Management. In this emergency that reality is being at least tacitly recognized. The same reality applies to peace-time production.

To be quite frank, the chief credit for the great material advance in enlightened capitalist nations over the past century belongs neither to labor nor to accumulations of money but to the always small minority of gifted individuals with exceptional intelligence, ingenuity, energy and ambition: the enterprisers, managers, inventors.

There is no salvation for mankind in a mere change of political organization or of ruling politicians—as the drab evidence of the Russian experiment proves. A better and more secure way of life can not in the final analysis be legislated into being. It has to be produced. Any politico-economic system will work if it has brains in the places of responsibility, and if it offers a variety of incentives strong enough to induce lesser folk to put their best foot forward. The more equal the rewards—and the more they are determined by political pressures—the greater the tendency to level down to a common plane of mediocrity.

In a fast changing world, the one thing changed scarcely at all is human nature. That fact is worth remembering as glib theorists talk about "new orders" of this, that and the other kind. A stuffed shirt is a stuffed shirt—whether he be Capitalist, Socialist, Liberal, Fascist, Communist or what have you.

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* * * IN THE NEXT ISSUE * * *

1941 Security Appraisal and Dividend Forecasts
Part III—Aviation, Motors and Accessories, Chemicals, Oils, Movies, Merchandising

Program for Income and Capital Growth With Wide Safety Margin
By J. S. Williams

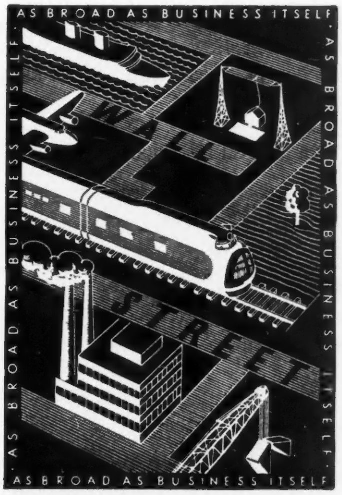
What Latest Trends Reveal For 1941 Earnings Prospects
By Ward Gates

Official Photo, U. S. Army Air Corps

To earth-bound civilians, Army planes in precise formation have ceased to provide a mere spectacle of beauty. We watch them today with sober thoughtfulness. What if this nation is drawn into the war? A look ahead at some of the probable economic and financial repercussions is offered in the article on page 508.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



The Trend of Events

BEGINNING TO ROLL . . . Although the boundaries are by no means precise, the national defense program may be regarded roughly as having three phases: first, the phase of letting contracts; second, the phase of preparation by industry for volume production; third, the phase of huge output of armaments.

Additional large contracts may later be placed on behalf of the British and there will be some additional demestic awards, but nevertheless we are now well into the second phase of preparation-for-production and in at least moderate degree this is beginning to overlap into the third phase. One significant measure of progress is rapid increase in Treasury disbursements for national defense from month to month. These figures are far more to the point than contract statistics. They are, of course, much less revealing than figures on actual current production of ships, planes, guns, tanks and so forth—but these are military and naval secrets.

January figures will probably show Treasury defense spending of at least $550,000,000, as compared with $473,000,000 in December, $376,000,000 in November, and $287,000,000 in October. To put it another way, total of such spending in the third quarter was $596,000,000; this was increased to $1,136,000,000 in the fourth quarter; and the January rate, if maintained, would mean about $1,650,000,000 in the present quarter.

Defense spending budgeted for the fiscal year ending next June 30 was set at approximately $5,000,000,000. Many observers doubted that progress of the program would permit so much money to roll out within the first twelve months of the armament effort. Yet continuation of the January rate of outgo would reach the goal set. It is more likely to be increased than merely maintained.

CRACKING DOWN . . . There was never a time when whole-hearted cooperation between the Government and business men was more essential than it is right now. So far as we know, business leaders have been cooperating. Certainly no responsible source at Washington has made any charge to the contrary. In fact, the President, Mr. Knudsen and other officials intimately familiar with the national defense program have gratefully acknowledged such cooperation.

But how fully is the Government cooperating? Why is it that the Department of Justice has chosen this time to break out in a veritable rash of anti-trust suits? One cannot fail to note the enthusiasm for a crack down on business at the slightest excuse—and the tolerant silence

which greets glaring instances of non-cooperation by the labor unions and even less excusable instances of racketeering union leaders waxing fat on exorbitant initiation fees which even common laborers must pay for the privilege of getting temporary jobs on defense projects.

Six companies have now been charged with operating under illegal agreements which curb the supply of magnesium. The layman will find it hard to believe that production has been curbed, illegally or otherwise, in view of the fact that domestic output has been much more than tripled during the past two years, and in view of the further fact that large investments in new sources of supply will bring another major boost in output this year.

What has the Government done to encourage production of magnesium or to accumulate strategic supplies. According to one of the reputable defendants in this suit, it was only recently that the Army and Navy got around to specifying use of magnesium in fighting aircraft. Previously they had stuck to aluminum, although it was well known that the Germans were making major use of magnesium in aircraft.

An anti-trust suit strikes us as a curious way to try to increase production of a key defense material. And the familiar technique of first smearing the accused companies in the newspapers and then expecting them to sign a consent decree in order to avoid the nuisance and expense of protracted litigation is not calculated to inspire confidence in the intentions or methods of the Government.

PRIVATE SALES . . . Federal regulation of the country's financial machinery cannot properly be held responsible for any major part of the great shrinkage in new capital security flotations over the past decade or more. More fundamental economic and financial changes have greatly lessened American industry's dependence upon former capital markets. Indeed, industry's dependence on the investment bankers was never as great as some people supposed it to be. Even in the free-and-easy '20's by far the greater part of industry's capital expansion was financed through investment of surplus profits and depreciation reserves rather than through sale of securities.

But Federal regulation is certainly responsible for the large growth in recent years of private sales of new capital and refunding issues to the great institutional investors, thus avoiding the cost and delay of S E C registration and leaving the investment bankers to scratch for an even smaller share of a greatly reduced business.

Smaller insurance companies have criticized the practice with vigor but without result. Last week, however, the opposition gained a notable advocate when George L. Harrison, president of the huge New York Life Insurance Company—buyer of many a block of bonds in private deals—stated in an address to the Bond Club of New York that he believes the public interest would be better served in the long run if this practice were substantially restricted. We think so, too; and it is to be hoped that Mr. Harrison's argument will get more sympathetic attention at Washington than the same argument has received heretofore when it has been repeatedly advanced by the investment bankers.

It would be quite simple to require that all security issues, above a small stated minimum, be registered with the S E C, thus putting the insurance companies on the same basis as other investors.

SO WHAT? . . . The United States Steel Corporation has reported earning total profit of $102,181,000 in 1940. Bethlehem Steel, Number 2 giant of the industry, earned a total of $48,677,000. Among the all too numerous individuals who have little understanding of—and even less affection for—our American system of private enterprise there is no doubt a great lifting of eyebrows already in progress. "Look at the huge profits of the steel monopoly! Make 'em pay higher wages and taxes."

Yes, a profit of $102,181,000 for United States Steel looks large—but it looks smaller when one notes that the company has a fixed property investment in excess of $1,100,000,000 and total assets in excess of $1,750,000,000.

Moreover, the steel industry is notoriously a "prince-and-pauper" affair. If steel companies could not put on some fat in the occasional good years, it wouldn't make sense for any sane capitalist to stay in the business. Nor for stockholders to continue hanging on to their shares in hope of some day getting dividends at least somewhat nearer the average of past good years.

During the ten years up to and including 1940, United States Steel paid out total dividends of $10 on the common stock or an average of $1 a year. In five of those years the equity shareholders got nothing. Bethlehem Steel over the same decade paid out to equity shareholders an average of $1.80 per share per year and in four years paid no common dividends. Shareholders are not only fairly entitled to the $5 per share paid out by Bethlehem in 1940 and to the $3 per share distributed by United States Steel, but are entitled to more generous treatment this year. They have waited much longer for some improvement in their status than have the employees of the steel companies or the tax collectors.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 504. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, February 3, 1941.

As I See It!

BY CHARLES BENEDICT

EVENTS FORMING A NEW PATTERN

IN recent weeks moves made in Europe and Asia are forming a definite pattern which points to a coordinated lineup between Russia, Japan and Germany. For the first time these three absolutisms are openly lining up against the coalition of the democracies headed by the United States and Great Britain.

Hitler's address of a month ago, when he hypocritically spoke of himself as the champion of the masses, gave the first hint of Russian adherence. (I referred to this in the issue of January 11.) The emphatic repetition in his latest speech, coming as it does on top of evidence of serious strife between the hitherto united Chinese Communist Armies and those of General Chiang Kai-Shek, clearly points to Russian maneuvering, for Stalin has complete control over the Chinese Communist Party. Giving such direct aid to Japan can only mean that Russia is playing the Nazi game—that Stalin and Hitler have come to terms. For if Japan is to be useful to the Nazis in the Far East at this critical juncture she must not be handicapped by a strong China or a menacing Russia.

Politically such an agreement has become more and more compatible with Communist ideology since the blitzkrieg has produced the same kind of absolutism for captive Europe under a Nazi bureaucracy.

Economically the effectiveness of the British blockade, after Italy lost her neutral status and foolishly became an active belligerent, increased Russia's importance as a source of supply with each passing month that Britain remained unconquered.

For, as it turned out, the military advantages gained by the blitz conquest of the Scandanavian countries and Holland produced a boomerang economically.

In the last war these countries were neutral and able to import large quantities of foodstuffs and raw materials, which subsequently found their way to Germany. This is not true today, and the Nazis are therefore obliged to look to Stalin who has been getting along famously playing both sides against the middle.

Moreover, the speed of the British successes in Africa which brought Italy's catastrophic defeat, stiffening Petain's resistance, placed serious obstacles in Hitler's way, so that he had to seek to bring Russia as well as Japan into more active partnership in an attempt to minimize the damage and to create diversion while he was engaged elsewhere.

In practically making Japan a gift of coveted Indo-China, (which France is very likely never to get back regardless of how the war goes), Hitler enabled the Japs to entrench themselves in Thailand, menacing the British at Singapore.

If he has also arranged for Russia and Japan to settle their differences and split Free China between them, we can expect Nippon to be on the move should Britain weaken, or if Hitler succeeds in an all-out attack against the British Isles before May.

Can Hitler win? I doubt it.

Although much is being said about Hitler's vast war machine, experience inclines me to discount it greatly.

In the first place, the success of the British in overcoming a tremendous num- *(Please turn to page 556)*

Humpty Dumpty!

Reprinted from the New York World-Telegram

Decisive Market Trend Developing

We think there is a good chance for a trading rally from the 123-121 area, Dow Jones; but war developments are likely to provide a more conclusive test of market resistance between now and spring.

BY A. T. MILLER

In declining by a decisive margin last week through the 128 level of the Dow-Jones industrial average, the market broke out of a trading range which had been maintained for about five months. From an already low base of activity, volume increased substantially on the reaction but up to this writing has not yet topped a pace of 800,000 shares a day.

At the present time the industrial average has cancelled more than 56 per cent of the entire recovery from June low to November high, while our weekly index of 290 issues has given up approximately 60 per cent of its corresponding advance.

We are a bit skeptical that the immediate market outlook is as black as would be suggested by the prevailing gloom and by superficial examination of the technical evidence. For one thing, the rail average to date has cancelled only 27 per cent of its June-November recovery and, in fact, stands at this writing a full point above the reaction low of last December.

Moreover, volume and other indications at least tentatively suggest that weakness has been due more largely to shrinkage in demand than to any really serious increase in liquidating pressure. It takes cumulative selling pressure to produce a sustained or broad decline.

We concede that increasing pressure may develop and that further substantial erosion of values is possible—but we think it more likely that the market is working into—if it has not already worked into—an oversold position from which at least an interlude of rally will develop.

Looking at the market from a broader perspective, there are two appraisals which merit attention. One is the Dow theory concept. According to this, the movement in progress is a bear market, the intermediate rally of June-November has topped out and the presumption is that both averages will eventually violate the lows of last June until evidence to the contrary is established. The other view—to which we subscribe—is that the market is devoid of sustained major trend, that it has been in a broad range of indetermination for more than two years and that the sharper fluctuations within this range have been—and continue—geared to European war developments and alarms.

In line with the second view, we think there is a fair chance that an effective support level will be established within the range 123-121, Dow-Jones industrials, and that the rest of February probably will find the market giving at least a moderately more favorable performance than it provided in January and the first few days of this month.

Nevertheless, under either this concept or Dow theory technique it is the part of prudence to defer purchases until current lows have been more adequately tested. Within the few days between this writing and the time our analysis will be read, there should be some indication—if the reaction has spent its force—of sidewise drift or rally efforts. Such a pattern, in our opinion, would invite speculative trading purchases, if protected by conservative stop-loss provision. We do not see a convincing basis as yet, however, for recommending longer range investment or speculative-investment purchases.

The most commonly accepted explanation of the reactionary trend is intensified fear of a coming Nazi drive to knock out England. The effect of testimony of high Federal officials in behalf of the lend-lease bill has been to create a scare psychology. We grant that they are well-informed and sincere—but we very much doubt that the worst war contingencies could possibly produce a market shock anywhere near as severe as that of last May, because the all-out German effort has been widely advertised for many weeks and has been at least substantially discounted both psychologically and technically. Moreover, there is certainly a possibility, if not a probability, that England, however much battered, will continue to hold out.

In each of the past three years there has been a severe market decline sometime within the period March-May. Partly on the law of averages, partly on faith in the increased defensive power Britain has built up since last autumn, we would not be at all surprised to see this precedent broken. Indeed, it may be that we are seeing the "spring reaction" now and that within the dreaded

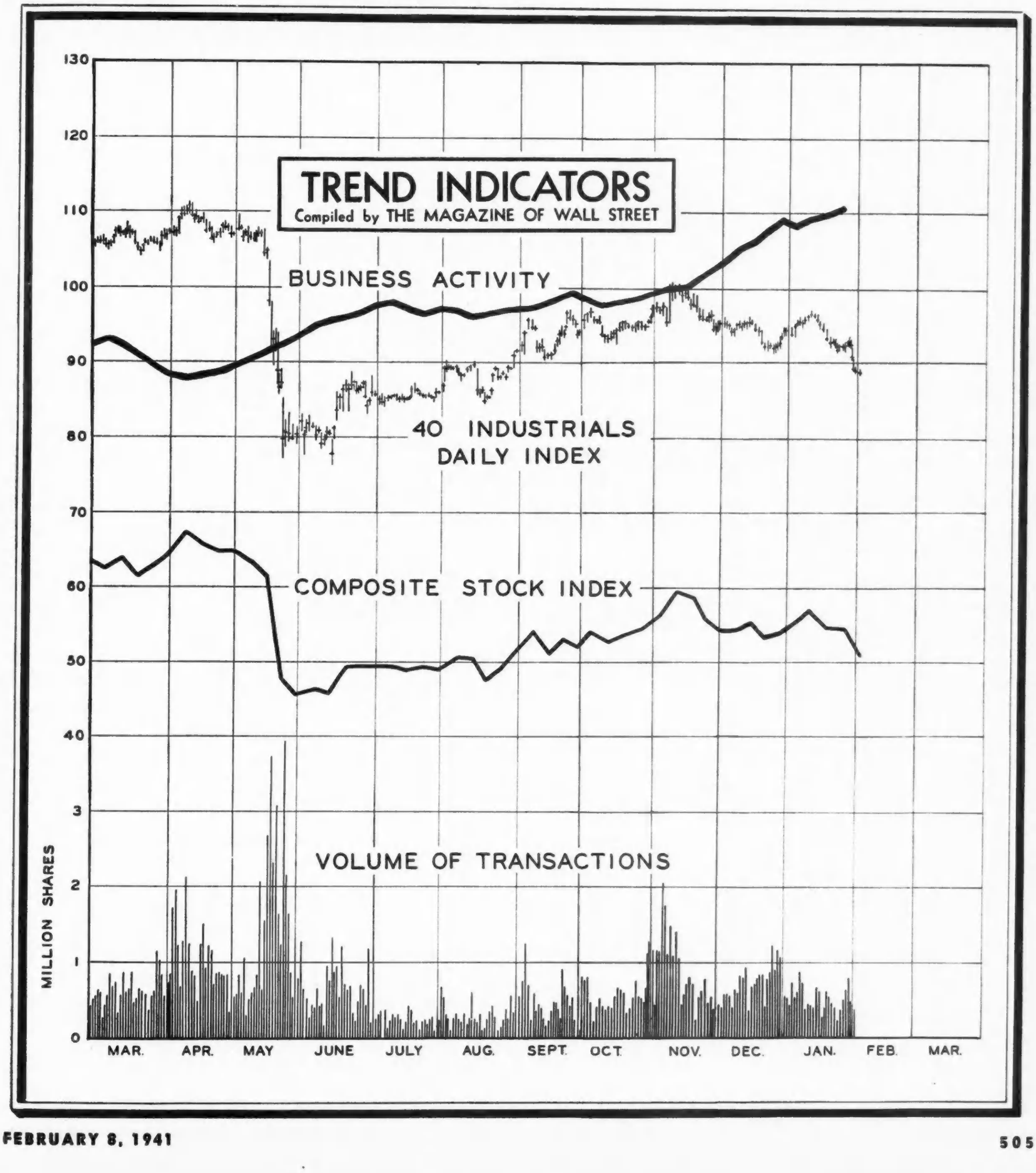
March-May period we may have a rising market on positively or negatively favorable war developments.

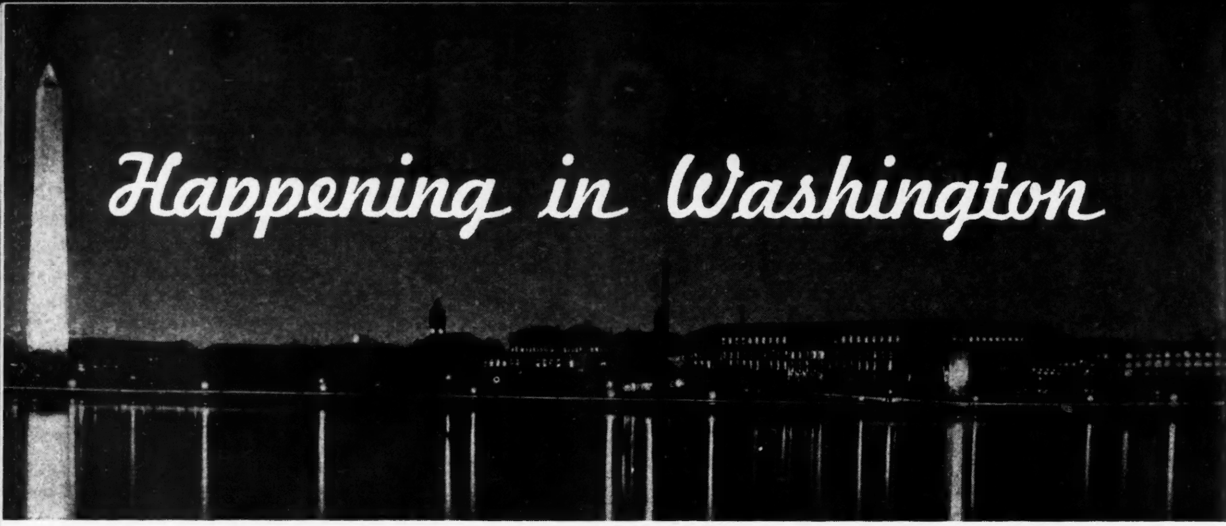
The spring projection suggested here must, of course, be regarded as tentative and too premature to warrant action. Less widely publicized than the war fears are certain other restraints whose relationship to the market trend can not be confidently measured in the existing setting. There is a continuing possibility of American involvement in hostilities. There is a lack of investment confidence in the outlook for corporate profits —taking into account pending tax increases, Federal pressure to hold down prices through anti-trust suits and other devices, rising demands of union labor, and step-by-step moves into a regimented war economy.

Everything is relative, however, and the practical question is what average level of stock prices allows for the worst. We make no pretense of being able to answer that question at present and we are inclined to seek answer in the market's own story over coming weeks—but we would feel just as nervous with a short position here as with a long position.

At a time when our broad weekly stock index is lower in relation to industrial production *than at any time since the summer of* 1932, and when the yield on sound equities is more than twice the yield on first grade bonds, it would seem that the market has gone a goodly distance toward discounting about every adversity in sight.

—Monday, February 3.





Drastic Federal Taxes Shaping Up

BY E. K. T.

The general increase in Federal taxes scheduled to be enacted by early summer will pose some serious problems for investors as well as business generally.

That taxes will be boosted appreciably is a foregone conclusion. General talk now is that in the neighborhood of $1 billion a year new revenues can be anticipated from the bill which will be drafted as soon after March 15 as a quick study of returns on 1940 incomes can give an indication of the yield from the two revenue acts of last year. But this bill will be only a start toward paying for defense. There will be still more taxes next year, possibly even late this year.

Administration policy for financing defense (which includes aid to Britain) is to use borrowing as much as necessary, particularly during the next year or so, but to raise increasing amounts through taxation. As business activity and national income increase under the impetus of the defense effort, existing tax rates will yield more, but nevertheless the rates are to be jacked up. One avowed purpose of this policy is to bring into Government coffers an important chunk of the increase in national income to prevent any group from profiting unduly from the defense program, even indirectly, and to prevent a huge increase in spending for consumer goods at a time when defense orders are putting a strain on all productive capacity. For the present this policy does not include a Federal sales tax on consumer goods since the Administration believes that this would impose too great a hardship on low-income families, but a sales tax very likely will come later when the need for curtailing general consumption becomes more apparent.

It is income taxes that must carry the new revenue load, both individual and corporate income taxes. Income taxes can be depended on to bring in the money, and they also fit into the policy of taxing in accordance with ability to pay.

The normal corporation income rate will almost certainly be raised. The top bracket, now 24 per cent, will be shoved up to 28 or possibly 30 per cent, but not above that this time, and lower brackets will be raised roughly in proportion. This will be hard on corporations not benefitting from the defense spending, such as those having static earnings or dealing in consumer goods not stimulated by the armament activity, but the Treasury argues, and Congress will agree, that where a corporation has any net earnings it should pay a somewhat larger share to the Government to finance defense.

Excess profits taxes will also be increased, in line with the theory that there must be no profiteering from armament orders or their reflection on other indirect beneficiaries. A better case can be made out for this than for increasing the normal rate on industries which don't benefit from defense spending, and if only the excess profits tax were raised it would make non-defense industries more attractive, by comparison, from an investment and dividends standpoint, but the prospect is that both normal and excess profits taxes will be increased. The present top excess profits rate of 50 per cent may not be increased much, but some of the lower brackets may be, and the law will be tightened up in many technical ways.

The Treasury will make a hard fight to have the excess profits tax based entirely on invested capital,

with possibly special treatment for personal service corporations and others requiring very small fixed capital, and to eliminate the present option of basing the tax on the average earnings of a four-year period. Industry will fight equally hard to retain the average-earnings option, and the chances are that the Treasury will not be entirely successful, though it may get part of what it wants. Taxpayers will come in with all sorts of proposals for changing the excess profits tax but it is doubtful that they will get any important relief and on the whole they will be lucky if the new law does not hit them harder than the present one. All the new rates will apply on 1941 incomes, and there is almost no possibility that any changes of importance will be made retroactive on 1940 incomes.

Individual income taxes will be upped, both normal and surtax. The present normal rate is 4 per cent plus 10 per cent of that as the "defense tax," and this will be raised to a total of at least 5 and quite likely 6 per cent. Even higher rates are talked but are not expected to come this year. Top surtax brackets will not be raised—nor lowered—but lower ones may be lifted and the lowest bracket will be extended downward perhaps to catch incomes of $3,000, thus bringing many more individuals into the surtax class.

Capital gains tax may also be tightened. For years business interests and investors have been asking more liberal treatment of capital gains, but the most they can hope for now is continuation of the present provisions of the law. Some increases may be made in present excise tax rates, and some new ones added, but this is problematical at this date. *(Please turn to page 560)*

CAPITOL BRIEFS

War economy, whether we have war or not, is planned by the Administration. This will become more evident rapidly, in all lines of business. It is being pushed as fast as possible, but Administration hopes to get the public accustomed to it by degrees. Various aspects include farming out defense contracts to small plants throughout the country, converting all possible producing facilities to defense orders, strong pressure against labor disorders and stoppages, holding down prices and profits, curtailing expansion of consumer-goods industries.

Defense planning is proceeding with much more speed and certainty since abandonment of "advisory" commission idea and creation of O P M with real powers. Many top-flight business executives are being brought in to staff O P M, which insures an understanding of the business viewpoint, but these men are now part of the Administration and they have a job to get done, so they won't hesitate to crack down on their former colleagues if necessary. Also New Dealers and labor men are sprinkled liberally through the staff, frequently with much authority. Thus the general tone of the Administration is still a little to the left or center, not crusading for reform except as it may be essential to the defense program, but not reactionary by a long shot.

Wide World Photo

Secretary Morgenthau will seek and get sharply higher taxes.

Advance buying of supplies will be done widely by Army and Navy under changes in procurement methods and appropriation restrictions. Orders which can be anticipated will be placed far ahead of delivery dates to permit production to be spread out, make employment more uniform, avoid adding defense orders to peak seasons of civilian production, permit more orderly assembly of raw materials, and prevent high prices due to sudden increases in demand. Defense planners have been advocating this for a long time, but procurement officers were short-sighted and were hampered by restrictions. New policy is expected to go long way toward keeping defense program from disrupting normal business activity.

Labor in defense industries will be a subject of high controversy for many months. The Administration is siding with labor in fighting off any restrictions or loss of social gains of recent years, but Congress will not remain passive. Dozens of bills are appearing to prevent the closed shop, prevent collection of union initiation fees for temporary workers, outlaw strikes, compel arbitration or mediation, etc. Little prospect that any such will be enacted soon unless complaints against unions become more serious, but committees will probe various aspects of the situation. Over-time beyond 40 hours is also under fire, but not seriously.

Labor participation in management is a goal of many union leaders, particularly C I O. Some unions have been very successful in helping employers reduce costs and get more business, and this aid has been welcomed by management. Now C I O wants to deal with all competitors in an industry as a unit and to have a voice in production schedules, prices, and other management policies. This is important part of C I O proposals for plane production in auto plants and increasing steel output. Employers will resist, but probably not entirely forestall this trend.

New defense moves of startling nature are expected when British-aid bill is passed. Whispers are such may include forcing more sub-contracting of defense orders, rigid priorities to speed defense orders, economic warfare against the Axis, new ways of aiding England.

Richie for U. S. Steel

The U. S. Economy Under "All Out" War Effort

BY LAURENCE STERN

HOW WOULD MILITARY PARTICIPATION AFFECT THE BUSINESS MAN AND INVESTOR?

AMONG the first things to be learned by the rookies now being drafted into military service is an old and not completely printable Army song. One key line of the song is: "You're in the Army now." And part of the punch line is: "You'll never get rich."

Today this song could be appropriately adopted by the American Association of Manufacturers, by the United States Chamber of Commerce and by local chambers of commerce in every industrial area throughout the land. For the essential fact is that the Government, in intense preparation against possible war, now has first call on the services of a great portion of American industry and as time goes on more and more business enterprises will find themselves "in the Army now."

It is not of any particular significance that industry's service—unlike that of the drafted soldiers—is voluntary. In this national defense emergency, and even more so should this nation become a belligerent, a request, suggestion or hint from the Government is very little different from a lawful command. Business managers—and everybody else for that matter—must "play ball"—or else! There is plenty of the power of compulsion packed away in the President's hip pocket, ready to be used if and when need should arise.

And it is equally without significance that the price paid by the Government for the services and products of industry is thus far a "negotiated" price. Underlying such negotiation, and capable of being used if necessary, is the implicit Federal power to commandeer the sources of production and to fix prices. Moreover, the Government, as need scarcely be emphasized, has the power—and intends to use it—to recapture by taxation any proportion of business earnings that it chooses to take. Profits? Yes, at least *some*—but no profiteering and no new crop of "war millionaires."

In short: "You'll never get rich—you're in the Army now!"

We may get into war by the sheer pull of circumstance—though it seems improbable as of today and the chance will be remote if our all-aid-to-Britain policy succeeds in

its objective. The *possibility* must be faced, however, by business men and investors; and in facing it there is one basic fact to keep in mind. It is this: In war every private right and interest is subordinate to the national interest and to the purpose of winning the war.

And that means in the final analysis that Government policies and actions will be determined by expediency rather than by abstract principle. In the matter of prices, compulsory priorities, taxes, methods of financing war loans, and the working terms and conditions of labor—in all of these the decision would turn on one question: Which policy is calculated to get most effective results in furthering the war effort?

Today Mr. Roosevelt would say—and sincerely mean it—that he has no thought of ever drafting labor. But in England labor also is politically powerful; and it is actively participating in the highest councils of government. And a year ago nobody in England would have believed that the British Government in 1941 would establish its right to "allocate"—that is, draft—English men and women to this or that designated task. But it came to pass, and it was Minister Bevin—himself a labor leader—who presented the plan to Parliament.

Getting Down to Brass Tacks

Why was this? Simply because it had become essential to the British war effort. What about "social justice"? Answer: Unless England survives the Nazi assault, there won't be any. Therefore, the absolute maximum of all-out war effort by every element of the English people—including labor—is itself the supreme form of social justice today.

Since war would find the United States in a far less vulnerable position than England is in, it is highly improbable that we would have to go as far in extension of totalitarian controls and compulsions as the British have had to go. But we would certainly move in the same general direction—getting further and further from the concept of "business as usual"—and practical necessity alone would set the limits.

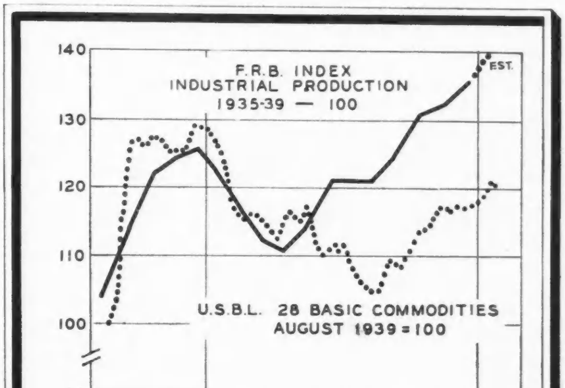
At the very worst, however, any American war effort would involve far less hardship than that now being endured by the English and the Germans. There are three reasons for this, as follows:

First, the happenstance of geography gives this country a stronger defense against attack than that possessed by any other major power. The chances of successful military invasion or large scale bombings of our cities are very slight. Even if England falls, our bastion will hold and direct military assault upon it would be too hazardous and costly to invite the effort. If we make any offensive effort in Europe or the Far East it would consist of naval and air action. The most effective and feasible weapon against Germany will continue to be tight blockade of the continent of Europe. The most effective and feasible offensive weapons against Japan would be naval and economic.

Second, our economic strength is infinitely greater than that of Great Britain and Germany. It is not only that we have abundance of raw materials, labor and manufacturing capacity. We have by far the highest standard of living in the world. Nowhere else do luxuries and non-essentials make up so large a portion of the average family's spending budget. The higher the living standard, the greater the margin within which non-essential consumption can be curtailed, if necessary, without incurring real hardship. For example, if we made the same relative war effort—in terms of national income absorbed for war purposes—as is being made by England and Germany at present, we would have a Federal war budget of more than $40,000,000,000 a year. This is about eight times the probable U. S. national defense expenditures of the present fiscal year and about four times the presently budgeted defense expenditures of the 1942 fiscal year. It exceeds any probable annual volume of war expenditures.

Third, even under war conditions the Roosevelt Administration would resist as far as possible the sacrifice of its basic social and economic objectives. Those objectives include full employment at good wages and an increase in national income to $90,000,000,000 or $100,000,000,000 without major rise in the cost of living. Business and individuals would be able to stand progressively higher taxation, given any such levels of public purchasing power. The ratio of corporate profits and dividends to business volume would certainly be smaller than in such peace-time boom years as 1929 or 1937, but—assuming a high purchasing power for the mass of the people—it is difficult to believe that business entrepreneurs and investors will be shoved all the way into the doghouse.

So far as industrial volume is concerned, total mobilization for war would increase the pressure for higher production but could not quickly change the present picture. The Federal Reserve Board index (estimated) is now at an all-time high around 138. It would be far higher if the present order backlogs of manufacturing industry could be promptly filled. The limitation, in



short, is not demand but inadequate productive capacity.

And because of the complex inter-relationships of our economic system, practical capacity is substantially smaller than theoretical capacity. For example, one plant may not be able to operate at more than 75 per cent of capacity because of inability to get a steady flow of key parts from another plant which is operating at 100 per cent of capacity. Again, machines capable of being operated 24 hours a day may produce only for 8 to 10 hours a day because additional skilled labor cannot be had.

At the present level of industrial activity a great variety of bottlenecks develop—especially in skilled labor, specialized fabricating equipment and in some essential materials. Therefore, even if we found ourselves at war tomorrow, it would be improbable that aggregate industrial production could be lifted by more than 5 or 6 per cent between now and mid-1941. Over a period of time, however, as newly built facilities came into operation, the production index would rise to undreamed of heights.

Because of the pressure of time, though, war demands could not wait to be served entirely by new facilities and newly trained labor from the ranks of the unemployed. For this reason, we would have to make increasing compromises—figuratively speaking—between butter and guns. It would not be simply a choice between essentials and non-essentials, as the distinction is made from the consumer's point of view. For instance, going to the movies is not essential but curtailment in this field would not aid the war effort. On the other hand, some of the physical facilities of the automobile and accessory industries and most of their skilled labor and managerial brains would be very useful in the war effort—and would undoubtedly be utilized to any needed extent. The same is true in other industries making consumers' durable goods, especially those equipped with any type of metal-working facilities.

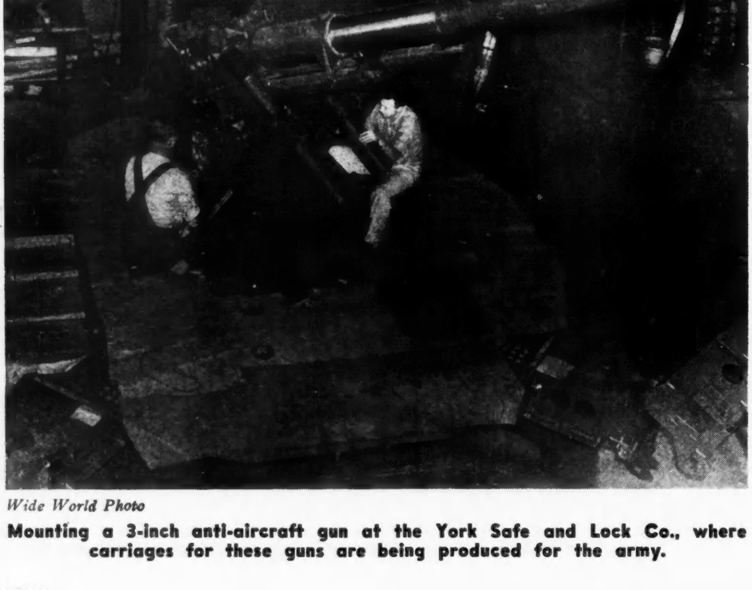
War, therefore, would bring a major dent in production of civilian automobiles and almost all varieties of household apparatus. And war construction, of course, would have first call on building materials and building labor, with resultant curtailment of normal residential building.

To sum it up on the industrial front, we would have a rise in total production limited only by capacities and simultaneously a very considerable shift in types of goods produced. The heavy industries would work at forced-draft indefinitely. The expenditure of their expanding payrolls would intensify the present boom in the light industries, calling for selective but progressive application of controls—chiefly in the form of priorities and consumption-reducing taxes—to prevent interference with war production.

Upward Pull on Prices

Even though selective, there would be strong pressures tending to make for higher commodity prices. Those pressures will include greatly increased public purchasing power, shortages in some types of supply, increased operating costs in production and distribution. The Government would fight the upward price trend with a considerable variety of direct and indirect expedients. The success of present control methods is problematical and outright eventual price-fixing is a distinct possibility.

Even should prices of some commodities rise considerably, however, it should be borne in mind that the cost of living would not be proportionately increased. A major part of the average family's living expenditures goes for food, clothing, rent, transportation (including maintenance of an automobile), insurance, utility services, medical attention, amusements, etc. There would be scant danger of a serious war inflation of the total living cost.



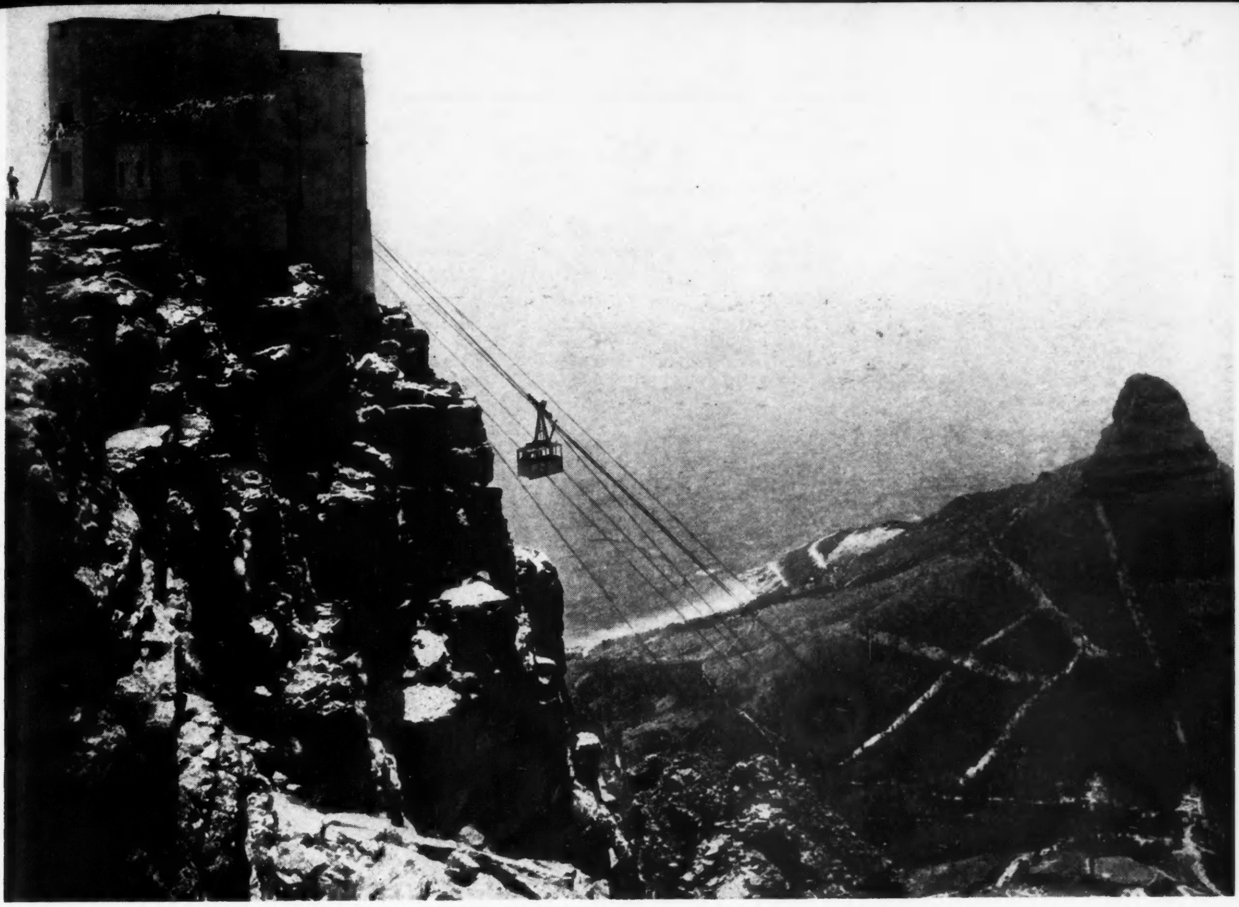
Wide World Photo

Mounting a 3-inch anti-aircraft gun at the York Safe and Lock Co., where carriages for these guns are being produced for the army.

Uppermost in the minds of investors, of course, is the question of what our involvement in the war would mean to the security markets. What about the high grade bond market? What about common stocks, medium grade preferred stocks and medium grade bonds, in all of which the trend of earning power is the most important investment consideration?

There have been some predictions that war would precipitate an immediate and major crisis in the Government bond market. In the writer's opinion, this is highly improbable. For more than one reason, the large financial institutions—which are the chief buyers and holders of gilt-edged bonds—could not afford to see it happen; and the Government could not permit it to happen. There is enormous support buying power available to various Federal agencies, headed by the Treasury and the Reserve System. The worst contingency probably would be a stiff reaction, followed by recovery.

On the other hand, interest rates for long term (*Please turn to page 559*)



Gendreau Photo

Aerial Railway and Lion's Head, Capetown, South Africa.

British Empire in Transition

May lead the way to a new, better balanced, more prosperous economic order

BY V. L. HOROTH

BEHIND the struggle in Europe, the tempo of industrialization of non-European countries has quickened once more. On a scale greater than during the First World War, the new wave of industrialization is, however, carrying with it new unsettling influences, the full effect of which is as yet far from obvious.

As the productivity and capital-creating capacity of industrially new countries is increased, the economic basis of sovereignty and of the "colonial" status changes, as also does the debtor and creditor relationship. In other words, the gap between the economic structure of non-European countries and older industrial countries is narrowing still further. Such a great shift in international economic relationships will inevitably bring about far-reaching social changes. But in the final analysis new industrial facilities in any country represent an addition to the total durable wealth of the world.

Human beings may, of course, misuse this new wealth. But the spread of industrialization to nations hitherto preponderantly agricultural certainly provides means for raising their internal living standards, diversifying their economies and enlarging their internal consumption markets.

The United States is the outstanding example of this process. Its amazing industrial progress has not made the rest of the world poorer. On the contrary, it has made the rest of the world richer. Similarly, balanced industrial-agricultural economies in other countries—India, for example—would in the long run be beneficial to all. If there is any economic road to "peace on earth, good will to men," this is it.

To be sure, there will be transitional difficulties and frictions, shifts in character of foreign trade, in some instances more intense competition for foreign markets. But the potential expansion of internal markets—

Development of Manufacturing Industries in British Empire Countries

Year	No. of Employees	Value of Output	Engines & Motors No. of Horsepower	Coal Output (Tons)
New Zealand				
1910-11	46,000	£29,317,000	....	1,192,000b
1920-21	48,700	77,828,000	219,000	1,914,000
1929-30	82,900	90,757,000	417,000	2,536,000
1938-39	103,000	114,447,000	833,000	2,317,000c
Union of South Africa				
1904	86,000	£19,530,000	41,500*	3,220,000a
1915-16	102,000	40,434,000	317,000*	7,990,000b
1921-22	172,000	79,446,000	562,000*	8,831,000
1929-30	218,000	111,800,000	1,032,000*	12,813,000
1936-37	333,000	175,760,000	1,900,000*	16,718,000
Australia				
1901	197,000	....	....	6,830,000a
1912	327,000	£148,775,000	391,000	12,620,000b
1921-22	395,000	320,340,000	798,000	12,497,000
1928-29	451,000	420,445,000	1,679,000	12,106,000
1938-39	565,000	500,420,000	....	13,795,000c
Canada				
1900	339,000	$481,000,000	....	7,960,000a
1910	515,000	1,165,000,000	....	13,620,000b
1922	456,000	2,375,000,000	2,365,000,000	13,751,000
1929	666,000	3,280,000,000	4,350,000,000	15,622,000
1937	660,000	3,623,000,000	4,843,000,000	14,366,000c

*—Primary movers only. a—1905. b—1913. c—1937.

through higher living standards—offers infinitely vaster economic opportunity than any conceivable volume of international commerce. Indeed, if other nations had standards of living approaching that in the United States, the potentiality for international exchange of specialized materials and goods would itself be enormously increased.

Throughout the second half of the nineteenth century and up to 1914, the industrialization of "newer" countries depended, generally speaking, upon the gradual inflow of capital from the older industrial areas. Except in the United States and Japan, which began to rely early upon their own capital, industrialization was not pushed to the point of endangering the position of industries in the older countries. In fact, there are cases of its deliberate retardation as in India and the French Colonial Empire in the pre-war period, with a view to protecting the industries in the mother countries.

The First World War and the suspension of the gold standard upon which, in a broad sense, the distribution of capital hinged, upset this system. Unable to obtain industrial products from Europe, and aided by a partial dispersal of European capital, many of the "newer" countries, such as Argentina, Brazil, Australia, India, the Union of South Africa and Egypt, embarked upon industrialization. Most of them emerged with a higher standard of living and remained prosperous during the first inter-war decade, when an investment boom re-stimulated their primary production.

Cessation of international investments after 1929 and disintegration of world trade upset the "newer" countries to such an extent that they took refuge in industrialization as protection against political instability and as a means of checking unemployment. They began to generate their own capital, by limiting the share of national income available to producers. They invested this capital as they saw fit, usually with no regard as to the effects upon other countries. All this required, naturally, increasingly broader government control of economic life. New industries had to be heavily protected and subsidized at the expense of the taxpayer. Moreover, internal borrowing created an unhealthy situation in many of these "newer" countries (Australia and New Zealand), from the immediate consequences of which (further currency devaluation) they were saved only by the outbreak of the Second World War.

The effort of Great Britain to mobilize the Empire resources to the fullest extent is pushing the industrialization of various Empire countries perhaps faster than elsewhere outside of Europe. Rather than use the limited available cargo space for the importation of bulky raw materials, the British are encouraging the greatest possible degree of processing to be carried out in the Dominions and the Crown Colonies. Many industries in Canada and Australia, which might have been considered of "hothouse variety" two years ago, have now large unfilled orders.

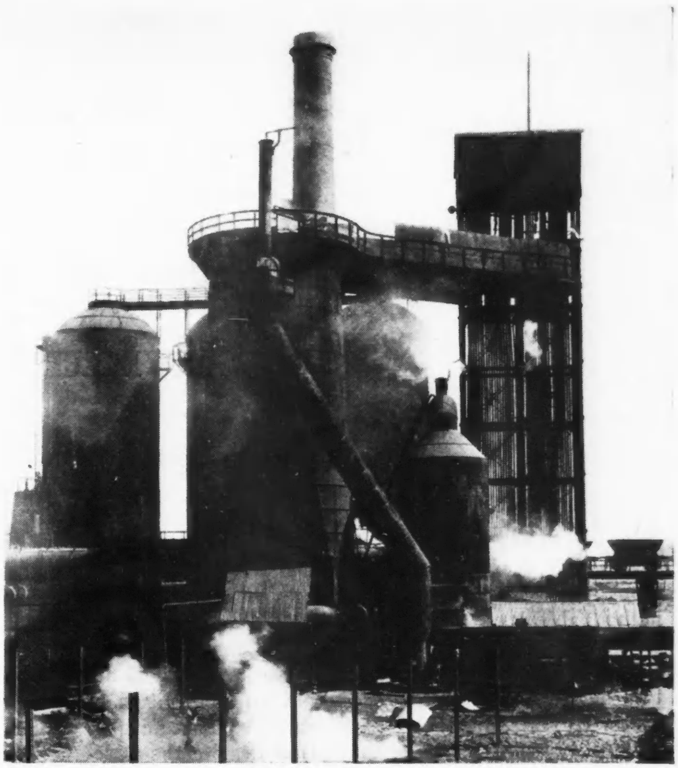
The size of the Empire industries is, of course, still relatively small. Compared with a labor force of some 10,000,000 engaged in the manufacturing industries in this country, the manufacturing industries in Canada employ about 800,000, in Australia some 550,000, in South Africa over 300,000 (including natives), and in New Zealand over 100,000. In India, the labor force engaged in industries (which include also mining, transportation, etc.) is put at about 15,000,000, but productivity per worker is far below that of other industrialized parts of the British Empire.

Of all the British Empire countries, Canada has travelled farthest along the road to industrialization. In order to offset the disastrous influence of the disintegration of world trade upon her primary production, almost every secondary industry was granted tariff protection in 1930-32. In the years following, practically every major industrial enterprise in the United States established a branch in Canada, with the result that about one-third of the Dominion's industrial output is contributed by American controlled plants.

With the introduction, since the Second World War began, of specialized industries, such as the making of alloy steels, precision instruments, aircraft and machine tools, the diversification of Canadian industries has entered the final stage. In order to survive after the war, many of these new industries will have to rely on exports, and thereby may become our competitors.

Australia has been one of the most ambitious among the Dominions in fostering industrialization, and national defense has supplied a new spur. Because of her isolated position and the threat of Japanese invasion, war industries were encouraged long before the Second World War. This explains why some 150,000 workers are already engaged in supplying and processing war materials, and why Australian factories are reported to have been turning out relatively more war materials, including airplane frames and engines, than Canada. Recently the Government decided to initiate the domestic manufacture of machine tools, precision instruments and stainless steel.

In Australia, as elsewhere, industrialization was accelerated by the First World War. However, the industries, processing chiefly domestic raw materials and foodstuffs, had to be protected by steep tariffs. The high degree of dependence upon imports lasted until the depression, when the decline of raw material prices lowered Australia's buying power abroad. In an effort to maintain a certain standard of living, a wide range of new industries was then introduced, with varied success and not always to the benefit of the consumer. The recurrence of financial difficulties in 1938, followed by the control of imports, quickened industrialization and Australia has thus become self-sufficient in goods ranging from gloves and perfumes to steel cables and heavy chemicals. Australia by herself, is but a small market of 6,000,000 people, and if her industries survive the present war boom, she will have to export. She now has the chance, with Continental merchandise being excluded, to establish herself as an exporter to such markets as the Dutch East Indies, and a trend toward that exchange of goods is already becoming noticeable.



Gendreau Photo

Lithgow Steel Works in Australia.

Indexes of Industrial Output

1926—100

Year	Canada	India	South Africa	Australia
1920	70	...	82	...
1921	60	...	77	...
1922	77	...	75	...
1923	84	...	77	...
1924	82	...	82	...
1925	90	...	88	...
1926	100	100	100	100
1927	106	...	104	...
1928	118	...	114	...
1929	127	...	121	136
1930	108	...	132	111
1931	90	...	111	...
1932	74	101	100	...
1933	77	111	121	125
1934	94	123	151	...
1935	104	126	175	148
1936	114	134	204	163
1937	126	140	232	176
1938	113	138	242	173
1939	122	145	252	191
1940(Est.)	169	155	263	197

In South Africa, manufacturing industries as well as diversification of agricultural and pastoral production, have been fostered by the Government with an eye to their serving as a possible substitute in case gold mining should fail. Industries are still limited mainly to the manufacturing of consumption goods and to the processing of domestic raw materials and farm products. Abundant supplies of coal and iron ore have led to the establishment of an iron and steel industry with an annual capacity of about 300,000 tons. Around it have grown up small undertakings, supplying such products as wire rope, hardware, etc.

As in the case of Australia, market expansion is necessary for the future well-being of South Africa's industries. There are two possibilities: one for South Africa to develop the purchasing power of her native population (four times as large as European); the other to establish new markets in the vast hinterland embracing Northern and Southern Rhodesia, Nyassaland, and British East Africa (Tanganyika, Kenya and Uganda), which have now definitely passed from the pioneer to the raw material producing stage.

New Zealand industries, like those of South Africa, are in the stage of processing native products (meats, fruits, dairy products) and manufacturing consumption goods (soap, leather, woolen mills). They have been dependent upon Government protection even more than those of Australia, and they too have benefitted from the import control which gave them a larger share of the domestic market and from war orders. Further industrialization is handicapped by the lack of industrial raw materials and fuels, and (*Please turn to page* 558)

Second Article in Series on Mixed Technical Patterns and the Background Causes

Measuring the Wide Divergences in Individual Stocks

BY FREDERICK K. DODGE

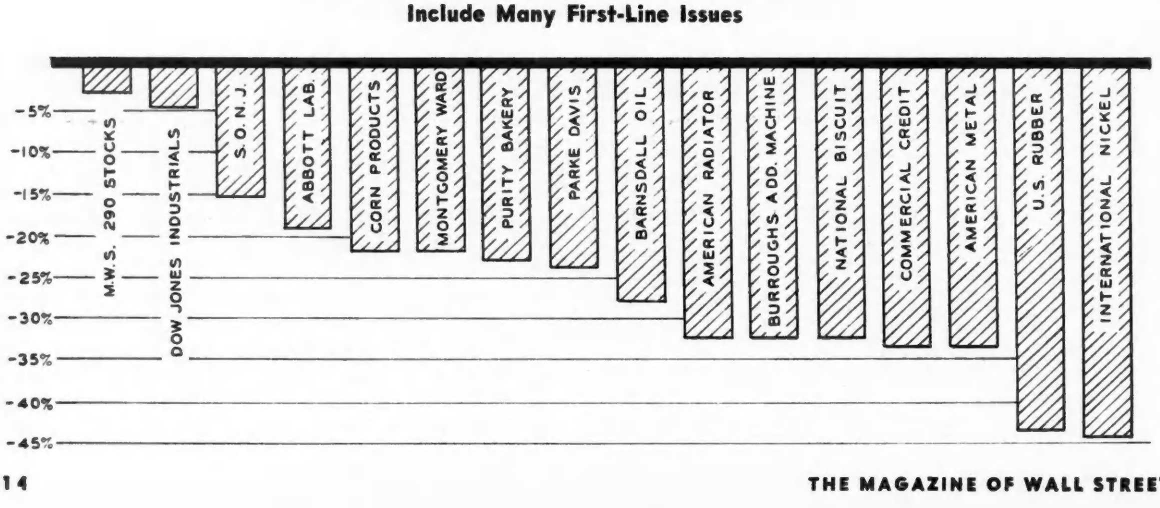
Our January 25th issue included an article which brought to light surprising divergences in trends of many individual stocks from the trend of the averages and from the trends of other stocks in the same industrial classifications. The present article covers technical action of other interesting issues, with an explanation of the motivating factors in the divergences. There can be little question, our studies show, that despite the widespread indecision as to whether or not this is a bull or bear market (with Dow theorists maintaining that the major trend is downward), distinct bull-market, bear-market and general-market patterns do exist. The last-mentioned pattern is the satellite type which adheres rather closely to the general movement as shown in the averages.

From our technical research, we do not necessarily conclude that the various trends among the specific stocks discussed are likely to continue without change; in fact, war, business, tax, earnings and dividend trends as they might peculiarly affect an individual situation could be responsible for readjustments or even reversals of some trends. The experienced trader or investor, however, knows from long experience that bucking a trend can be ruinous and that success in market operations—short or long—is far more assured if one is riding with the trend. Thus, while an uptrend stock is likely to fall along with other stocks in a market break, there are more willing buyers ready to catch it at a discount and the issue establishes a potential-rebound base much sooner than the downtrend stock. Similarly, recovery is faster and the growth pressure is likely to carry the stock to new highs when the general market trend turns upward.

Significant along these lines is the persistent weakness in many of the light-industry stocks, some of which are shown in the bar chart accompanying this article. This chart, including some of the well known stocks which have depreciated more than the average since the war began in September, 1939, is a contrast to the chart in the January 25th issue, which shows stocks that have done considerably better than the average over the war period. While many individual stocks, particularly marginal preferred issues, have been steadily climbing to new highs for some time, numerous erstwhile favorites have been experiencing downtrends occasionally interrupted by only minor rallies.

WAR MARKET DEPRECIATION LEADERS

Include Many First-Line Issues



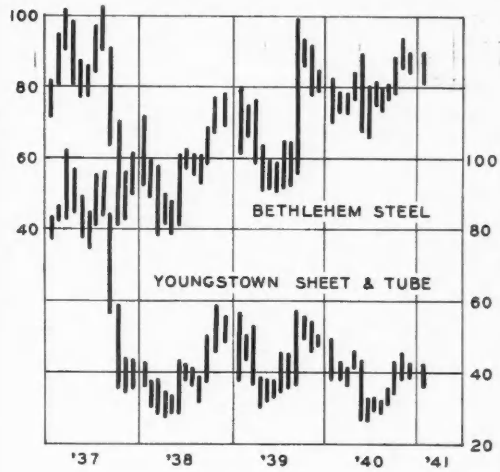
This observation is not made on the basis of so long term a trend as those discussed in other instances in the article, but if the trend were followed, say, at the beginning of 1940, it would have proved profitable or at least money-saving to have sold these issues early. Whether or not the trends will continue in these issues is questionable; but assuming a similar general set of circumstances as in 1940 it is reasonable to believe that the trends may so continue in the majority of instances. Much will depend, with respect to the lighter lines, on taxes. If it be assumed that the invested capital base be adhered to in future excess profits taxation (for which some Government authorities indicate their preference) many of these types of companies will be affected—even more so than in 1940.

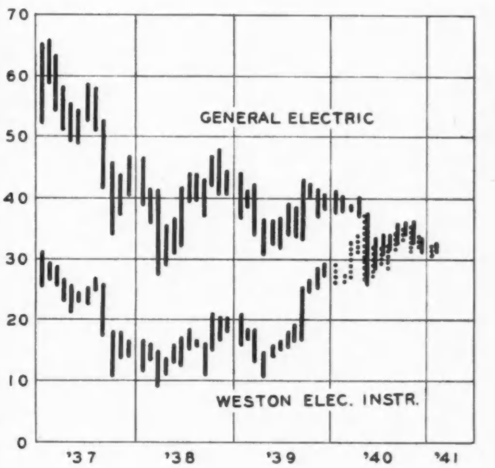
Tax potentialities, however, even are running to the possibility of taking perhaps the average earnings basis for figuring exemptions instead of the invested capital basis. Sentiment favoring this basis has been stimulated by the fact that many companies which receive only secondary benefits from the defense program are among those most heavily taxed. Having no offset to the greater taxes, because of their typical stability of enterprise and relative inflexibility of price for selling products, these companies have been unduly hit. Such a tax change is far from being a certainty for this year; in fact, it appears unlikely. Nevertheless, the fact of coming changes must be recognized, and such changes could have a far-reaching effect on the whole conglomeration of criss-crossing individual trends.

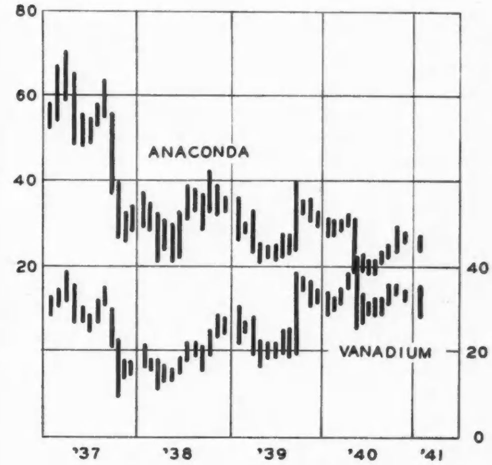
Some Varying Examples

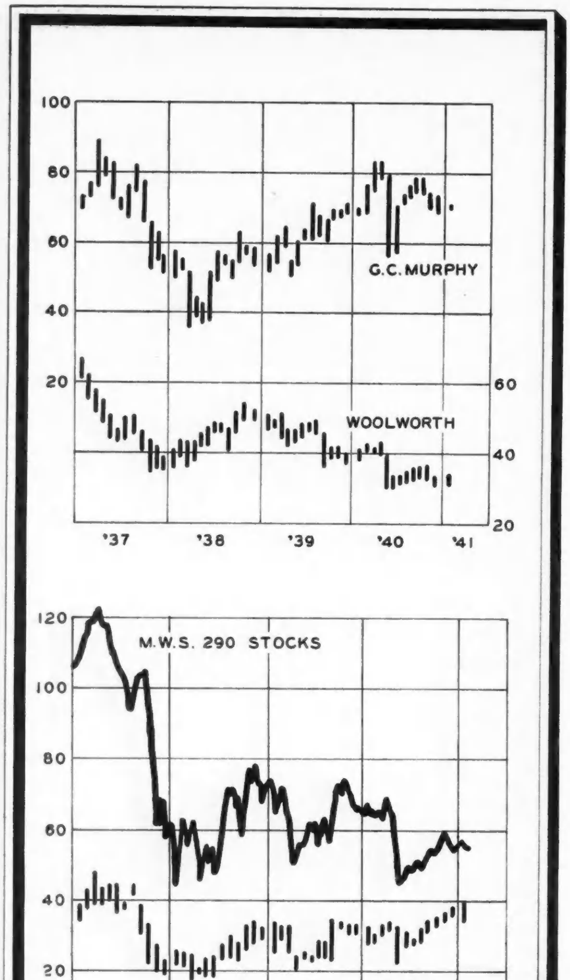
Interesting, in the steel group, as examples of divergent long term trends are Bethlehem Steel and Youngstown Sheet & Tube. Looking at the chart of these two situations, the reader will note that following the 1937 crash, Bethlehem Steel settled into a see-saw formation between 40 and 70. Upper limits of this formation were penetrated in the latter part of 1938, this action indicating the establishment of a general bull line. This move carried to 80, following which a congestion area of several months' duration was established in the 65-75 range. Unsettlement in 1939 brought the stock down again, but significantly it based in the 50-60 area, from which the stock skyrocketed on the British war declaration on Germany through both the 50-60 and the 65-75 congestion areas. A bull-market pattern thus was clearly established and this was reaffirmed in 1940 by strong penetration of the stock through the 80 level.

Youngstown Sheet & Tube reveals a different pattern. After the 1937 setback, the stock for several months ran somewhat along the lines of Beth Steel. Most importantly, however, a high price (for the move) of 57¼ was reached and not since reattained, even on the war skyrocket in September, 1939. From this point, a series of descending tops foreshadowed an intermediate term downtrend. Inability to clear the 57-60 area in 1939 flashed a technical weakness signal which was substantiated by the long general downtrend of the subsequent period. Slow in rebounding from its 1940 lows, the stock recently has resumed a more favorable trend. Nevertheless, the spread between it and Beth Steel is approximately the widest for the past four years.









Basic reasons for these diverging trends are found in types of operations and relative growth of company. Bethlehem is at a current advantage in being the largest shipbuilder, thus benefiting from the tremendous shipbuilding boom; in fact, last year's earnings of $14.04 a share substantially exceeded even the $11.01 per common share reported for 1929. By contrast, Youngstown Sheet & Tube Company's earnings last year were considerably under those of 1929, in which year they reached $17.28 a share. Last year's earnings for Youngstown were $5.96 a share. This company's slow earnings recovery from the major depression of the early '30s was caused by a top-heavy dependence on pipe business, but plant modernization and product diversification since then has improved relative profits.

Another even more striking example of divergent trends of individual stocks within an industry shows General Electric at a high of 64⅞ in 1937 and Weston Electrical Instrument at a high of 30⅜ in the same year. Over the past four years these stocks have followed irregularly converging trends, with prices actually merging in 1940. General Electric on major rally movements failed quite consistently to attain its previous major rally peaks and thus the general long term technical picture of relative weakness is obtained—declining tops and failure of significant bases to hold recessions. The important break-through of May, 1940, in fact, carried the stock to the lowest point since 1935.

Weston Electrical Instrument, in turn, shows development of a strong, flatter base after the 1937 break than General Electric. Decisive penetration of the top crust of this formation in October, 1938, was the signal for long term bullishness, justified later by the pyramid-side formation in the middle of 1939 and the clearing of the entire October, 1937, to September, 1938, base. This flash of technical strength was followed by a virtually uninterrupted advance and a final price consolidation with General Electric. Peculiarly enough, once the stock reached GE's price, the two issues have had practically a parallel range.

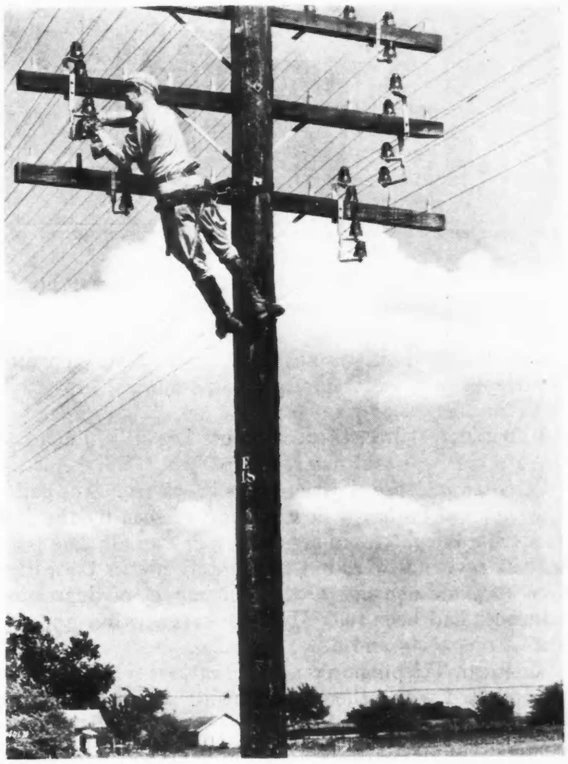
This is an interesting example of a secondary issue of an industry doing far better marketwise than the leader itself. Naturally, the business of secondary companies, with their relatively smaller capacities, is considerably more affected percentagewise than that of the leaders, in times of general prosperity. This is so because the leaders as a general rule run closer to capacity on the average, and the additional business does not mean so much to them on a comparative basis. In the instance of Weston Electrical Instrument, however, an influence has come to the fore in recent years which, relatively, affects it much more than it does General Electric. This is the aviation equipment boom. One of Weston's principal markets is the aviation industry, which uses its engine synchronoscopes, tachometers, low temperature measuring instruments and radio compass indicators, sales of which have given the company's business an extra fillip in the last two years.

Anaconda and Vanadium are two more examples of widely varying patterns. The bear trend of Anaconda began with the early-1937 reaction, with definite technical indications of difficulty showing in the latter part of 1938 when the issue failed to hold above the July-October base. This chart flash (*Please turn to page 556*)

American Telephone and Telegraph Under New Influences

Has Withstood Various Assaults on the $9 Dividend, But Will Have to Contend with Others Yet to Come

BY JESSE J. HIPPLE



THE latest report of the American Telephone & Telegraph Co. indicates that unless taxes are further increased the continued secular growth of the system and the rise in toll calls should be adequate to maintain the fixed dividend of $9 a share.

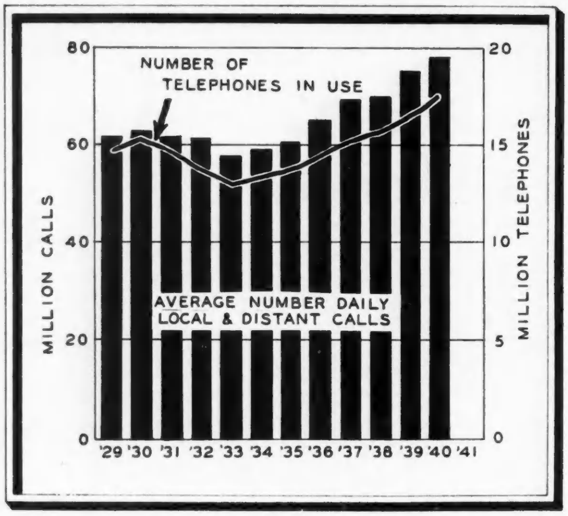
Taken as a whole, revenues of the telephone industry experience but moderate stimulus from industrial activity generated by defense business. True, there is a modest gain in toll business—toll calls were up 8 per cent last year—but since toll calls provide less than one-third of the company's annual revenues, their effect upon the total earnings is modest. Of greater importance to the American Telephone is the growth in private stations which provide approximately 66 per cent of the revenues.

During 1940 Bell System telephones in service rose to a new all-time high record of 17,483,800 instruments. New connections were approximately 950,000 against 775,000 in 1939. The 1940 figures marked the continuation of the secular growth of telephones in service, interrupted in the period 1931-1933 but renewed again in 1934. The rise in the number of telephones in service has been higher than the increase in population but is accounted for by the constantly improving service, moderately declining rates, suburban home development and a rising standard of living.

At the present time the United States has approximately 50 per cent of the world's telephones and approximately 1 telephone for every 7 inhabitants, according to the latest census figures. These statistics would seem to indicate that the number of instruments in service is approaching the saturation point and that from now on further gains will be limited. This would be true if it were not for the fact that out of all of the telephones now operating only about 60 per cent are residential installations and this group is heavily outnumbered, for instance, by the number of private automobile registrations and even residential electric service meters in operation. Despite the record number of telephones now connected, continued growth at close to recent rates is not a too optimistic expectation.

Toll calls, on the other hand, will more closely follow the trend of industrial activity but, due to promotional rates and improved service, their number will continue to increase under comparable circumstances. While the number of toll calls will be higher on average, the increases will not be reflected in commensurate gains in toll revenues for toll rates are most subject to regulation and individual charges have been declining for a number of years. As time goes on, toll charges will probably be even lower with only increased efficiency of operations to compensate for the decline in charges per call.

Residential rates may also decline over the longer term but only as a result of lower operating costs and increasing efficiency. At the present time, the bulk of the residential telephones are in middle and higher bracket income homes. This class of subscriber is prone to subordinate cost to convenience and only in times of greatest economic pressure is the telephone abandoned. In the case of residential service, future expansion will



follow population growth and also the increase in the number of individual homes established. The present prospect for higher residential connections is improved by the heavy trend toward new small homes in which the telephone is an integral piece of equipment for modern living.

Taken on balance, then, revenues are still in a broad uptrend and will continue to be so if only because of the anticipated increases in telephones in service. The gains, however, will be fairly slow as may be seen by the fact that while telephones in service were at an all time peak in 1940, revenues were but moderately higher than they were 10 years ago before the full impact of depression influences had been felt. This, however, is not quite so true of operating and other expenses.

American Telephone's operating ratio is relatively high as compared with other public utilities as, for instance, the electric power and light industry. Out of the company's gross operating revenues of $121,038,000 in 1940, approximately 85 per cent went for operating expenses and taxes. This was considerably higher than was the case of several large electric power corporations whose operating expenses averaged approximately 70 per cent of gross income and individual companies whose operating ratio was even less.

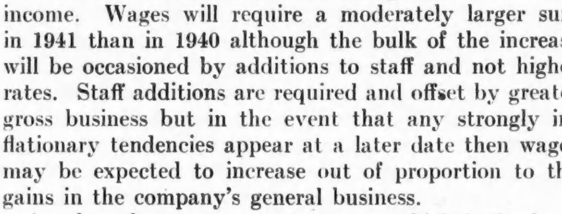
The Telephone Company is famous for the high degree of efficiency with which its affairs are administered but despite this watchful attitude there are numerous items of expense over which the company can exercise only limited control. Labor and taxes are the major consumers of company revenues and both of these items will expand before they contract. In 1939 the share of the company's gross operating revenues which went to labor and government absorbed nearly 60 per cent of the whole. In 1940, the labor cost was moderately higher—representing mostly additions to staff—but taxes were considerably higher, representing sharply increased tax rates on modestly larger net income. Itemized breakdowns of 1940 expenses are not as yet available but in the 12 months period ended November 30, 1940, taxes were about 17.5 per cent higher than a year ago while gross operating revenues increased only approximately 5.6 per cent in the same period. In the period under discussion, the Federal Government and other taxing bodies took from the operating subsidiaries of American Telephone, $182,383,341 as compared with total dividend payments to A. T. & T. stockholders during 1940 of $168,181,000.

Taxes will unquestionably be higher although on the basis of the present set-up, the Telephone Company has but little to fear from an excess profits impost. This is particularly so if future taxes are based upon invested capital. On such a basis, American Tel. & Tel. has its major investment of capital in stock upon which earnings are well below the 8 per cent currently permitted by law. Should the average earnings basis prevail, however, the company's position would not be quite so favorable for average 1936-1939 earnings were about $9.50 a share of common stock and would thus be vulnerable not only in 1941 but for a considerably longer period as far as can be seen at this time. The capital investment method of figuring excess profits taxes will probably be retained unless some totally different method of calculating excess profits is devised.

Most Costs Well Controlled

Labor and other material costs are not likely to get sharply out-of-hand but it has been the company's policy to recognize higher living costs by wage adjustments. Such adjustments may not be large but since wages require approximately 45 per cent of gross revenues, any increase in labor costs would find a magnified effect in net income. Wages will require a moderately larger sum in 1941 than in 1940 although the bulk of the increase will be occasioned by additions to staff and not higher rates. Staff additions are required and offset by greater gross business but in the event that any strongly inflationary tendencies appear at a later date then wages may be expected to increase out of proportion to the gains in the company's general business.

Another charge on gross revenues which bulks large and will continue to do so is maintenance and depreciation. At the present time, in order to maintain service at the peak of efficiency and to make provision for future retirement of plant and equipment, the Bell System de-



votes approximately 35 per cent of gross revenues to this purpose. This rate is approximately double that of many large electric power and light companies and has been subject to considerable adverse criticism from state regulatory bodies in their demand for lower rates. Plant depreciation alone absorbes close to 15 per cent of gross revenues which is equivalent to an annual write-down of about 4 per cent on depreciable property. Plant retirement has not followed charge-offs to that extent with the result that depreciation reserves now amount to more than one-quarter of the gross value of depreciable plants and thus constitutes a target at which those seeking lower service charges may point.

Over the longer term these same accumulated heavy depreciation charges contain a threat to gross income for it is likely that they will be deducted from property values at some future date in determining plant valuations upon which the company will be permitted to make a fair return. Thus, high or low depreciation charges will make but little difference to the company's shareholders for any savings effected by lower charges will be absorbed by mandatory reduction in rates or, perhaps, higher taxes.

Part of these accumulations of depreciation reserves will, however, find active employment in 1941 and may be the way in which the company will meet the threat outlined in the foregoing paragraph. During 1940, the Telephone Company spent approximately $350,000,000 gross for plant additions and other facilities and indications point to further expansion to approximately $400,000,000 in such expenditures during 1941. This large sum does not represent the expenditure of new money entirely for against it will be found large recoveries from the salvage of old materials and sums set up as retirement reserves. It is quite possible that recently announced private sale of $140,000,000 of 2¾ per cent bonds will provide all of the new money needed for the projects.

The most recent financing will have but little effect upon shareholders' equity in the company or its earnings, for the amount, while in itself large, bulks small in comparison to net assets and total funding. The interest rate is small and on the whole, the issue, while it marks a departure from the company's usual method of funding, is better for the shareholder than if the offering had been made in common stock as has previously been the custom. Until financial conditions change radically from those of the present, no new issues of common stock are likely due to the inability of the company to make any further market for rights or fractional shares and also the necessity of maintaining a $9 dividend rate on $100 par value of stock when very low interest rates are available.

The additions and improvements contemplated are almost all designed to add to the efficiency of the service and at the same time reduce maintenance costs and other charges. As a case in point, the fairly new co-axial cable which has been in test between New York City and Philadelphia has proven to be successful. This cable permits the connection of 200 calls at the same time with a consequent savings in the number of wires, poles and other devices. Plans for this year also call for the completion of a series of underground wires which will eventually run from coast to coast. Such a development, while costly for installation, will permit continuous service despite weather conditions and afford considerable relief from heavy maintenance charges characteristic of overhead, trans-continental lines. These are but a few of the improvements to the service currently in progress but they serve to illustrate the utilitarian and potentially profitable nature of the work.

War abroad and talk of posible participation by this country brings to the mind of many investors the events of the last war when communication systems were Federalized. It is not likely that the Government will again take over the telephone and telegraph services of this country even should we become one of the belligerents. At the present time there are already laws in existence which give the Government priority in any of its communications; which is all that could be expected of actual Federal control. The last war proved to the satisfaction of any but the most rabid bureaucrat that the Telephone Company management can render a far more efficient service than could any Federal agency taking over the vast and complicated system. In the remote event that the Government would take over control of the telephone and telegraph system the stockholder would be in a satisfactory position for the *(Please turn to page 552)*

Stand-Out Performances Shown by a Score of Enterprises in New and Old Fields.

Companies Making New Profit Records

BY STANLEY DEVLIN

FROM early April last year, THE MAGAZINE OF WALL STREET per capita index of business activity rose steadily, with only brief pauses in July and August, to reach a level at the year-end which was less than 4 per cent under the all-time peak touched in 1929. Normally, with the benefit of this dynamic industrial background, it would have been hardly surprising if a considerable number of companies had been able to set new high records in sales and earnings. Indeed, not a few companies have reported or will report the largest sales volume in their history. Unfortunately, however, the ranks of such companies will be rather drastically thinned out by any attempt to match record sales with record profits. Almost without exception, greatly increased taxes were responsible for the inability of a company to save a larger share of gross for net. True, raw materials prices and production costs rose last year, but regardless, the number of companies reporting record earnings would have been much larger had it not been for the heavy toll levied against earnings by the increased rate of corporate taxes and the imposition of the excess profits taxes provided by the Second Revenue Bill of 1940.

The surprising fact, therefore, is that some companies, despite these handicaps, were still able to show record breaking earnings. Moreover, among these companies were represented a rather wide diversity of industries. As might be expected, of course, those companies favored by war orders were in the majority, but the distinction of achieving new records in sales and earnings was shared by other companies as well—companies which at best had only an indirect stake in armaments. To that extent their achievements last year acquire added stature and significance.

The accompanying list of companies with an outstanding earnings performance last year is by no means an all-inclusive one. It was compiled on the basis of rather conclusive evidence. Otherwise it might have been enlarged considerably, but companies which at the end of last June or September appeared well on their way to new records, may have been eliminated by the year-end as a consequence of heavy charges against earnings for increased taxes, and other year-end adjustments. In such borderline instances it seemed wiser to await the actual evidence of the official annual report.

However, it appears to be a safe assumption that any comparison of the full list of companies which made a new profit record in 1940 with the 1939 list will find many absentees in the most recent list, as well as a number of newcomers last year.

Some of the most conspicuous absentees will be among the companies previously credited with having a strong growth factor. The fact, however, that earnings of such companies last year failed to provide tangible evidence of growth does not justify the conclusion that growth has been arrested, but the chances are it will be found to have been largely absorbed by increased taxes and costs. The latter might in time be overcome, the former are beyond managerial control. In the circumstances, the probabilities are that many such issues will have to sacrifice indefinitely some of their former market glamour, as in fact most of them already have.

New Records in Consumer Goods Industries

That higher costs and increased taxes, however, could not entirely obscure growth was rather impressively borne out by the showing of Industrial Rayon last year. With the full benefit of its newest plant, which was completed in 1939, adding about 12,000,000 pounds to annual capacity, the company's output of rayon last year was the largest in its history. All three of its plants operated at capacity virtually throughout the entire year. Earnings are estimated to have been in the neighborhood of $2,300,000, which would compare with the previous peak of $1,806,792 in 1933. Added plant facilities now under construction will add 6,000,000 pounds to capacity and with every expectation that demand will continue to expand, the current year will undoubtedly witness further progress in both sales and earnings.

Cluett, Peabody & Co. was another company identified with consumers goods which was apparently successful in expanding both sales and earnings last year. With a 10 per cent increase in sales, it appears probable that the company was successful in increasing moderately the per-share earnings of 1939, which were the best in twelve years. Potentialities for further growth in the company's business have been augmented by the development of a process for eliminating the extreme elasticity in viscose rayon. Increasing consumer purchasing power is another favorable factor in the current outlook.

It is a foregone conclusion that there will be a considerable dimunition in the number of chemical companies

able last year to expand sales and earnings into new high ground. Shares of representative chemical companies have long been held in high investment favor because of their record of uninterrupted growth. For the most part, however, growth in the chemical industry probably can best be described as orderly and persistent rather than spectacular. As a consequence, some of the chemical companies last year found normal growth in sales insufficient to offset entirely the burden of higher taxes. Two exceptions to this general experience, however, are included in the accompanying list—American Cyanamid and Hercules. Later on there may be others.

American Cyanamid is beginning to reap the rewards of a program of diversification and expansion started ten years ago. The actual gain in earnings last year was not particularly large, but by contrast with the showing of some of the other chemical units it can be accepted as wholly satisfactory. Moreover, the company's tax burden was eased by the fact that most of the acquisitions in recent years involved an exchange of stock, resulting in a corresponding increase in the capitalization of American Cyanamid, and giving the company a greater tax allowance than the average chemical company.

Honor Roll of Peak Profit Makers

	Earned Per Share				Dividend	Price Range 1940-41	Recent
	1929	1937	1939	1940E	1940	High Low	Price
American Cyanamid "B"	$0.35	$2.09	$2.07	$2.15	0.60‡	39⅞-26	33
Bendix Aviation	3.53	1.07	2.14	4.44	2.50	37¾-24½	36
Bethlehem Steel	11.01	7.64	5.75	A14.04	5.00	93¼-63½	81
Bullard	3.60	3.19	1.04	5.00	2.00	36 -20	28
Carpenter Steel	2.01	3.31Je	0.88Je	A4.05Je	2.75	32¾-22⅛	29
Cluett, Peabody & Co.	1.71	0.72	4.16	4.20	2.75	45½-25½	30
Eastern Air Lines	NA	NA	2.06	3.00	...	44½-25¾	27
Hercules Powder	2.98	3.23	3.65	4.01	2.85	100½-69	69
Industrial Rayon	1.91	0.34	1.77	3.15	2.00	29 -16⅜	25
McGraw Electric	2.14	2.00	2.99	3.10	2.25	29 -17⅛	23
Monarch Machine Tool	NA	2.91	3.53	4.75	3.50‡	47¾-24½	34
G. C. Murphy	1.55	5.84	6.47	7.00	4.00	83 -56	70
New York Air Brake	4.72	3.61	2.88	5.75	3.00	50 -30¼	41
New York Shipbuilding (Ptc)	0.32	Nil	1.61	3.50	1.00	31¾-13¼	25
Outboard Marine & Mfg.	NA	3.16	3.49	4.43	2.25	32¾-19	26
Republic Steel	NA	1.14	1.42	A3.30	0.40	24½-14	19
Sperry Corp	NA	1.46	2.71	3.00	2.00	47 -33	34
Square D	NA	3.09	3.02	4.00	2.80	40½-26⅞	32
Thompson Products	4.57	2.92	3.90	5.00	1.75	38¼-25¾	31
Timken Detroit Axle	1.28	1.68	1.50Je	A3.69Je	3.25	34½-18	30
United Aircraft	NA	1.52	3.53	5.00	3.50	53⅜-31½	38

E—Estimated. A—Actual. Je—Year ended June 30. (Ptc)—Participating shares. NA—Not Available. ‡—Plus Stock

Hercules Powder was another chemical unit which, with the benefit of an increase of some $10,000,000 in sales, was enabled to absorb a substantially larger tax liability, and report the largest earnings in its history. Sales in every division of the company's business exceeded the volume for 1939, but the most important contributions were made by products developed in the company's research laboratories in recent years.

The volume of business in all sections of retail merchandising expanded last year. But the list of companies in this group able to surpass previous earnings records will be a very small one. It is a pretty safe guess, however, that among these will be found G. C. Murphy. Sales were up nearly 13 per cent, an increase greater than that shown by the majority of variety chains last year. The annual report has not been released yet, but on the basis of the company's consistent ability to carry a larger share of gross to net than most of its larger rivals, earnings last year were probably in the neighborhood of $7 a share for the common stock, a new high record.

In the heavy industries, particular interest attaches to the outstanding showing made by Bethlehem Steel last year. In the final quarter of the year the company earned some $14,500,000, making it not only the largest fourth quarter in its history, but also the most profitable of any previous quarter. For all of 1940, net available for the common stock was equal to $14.04 a share, also a new high record. At the beginning of 1941, the company had unfilled orders on its books amounting to $1,200,000,000! At the beginning of 1939 unfilled orders amounted to $287,000,000.

Republic Steel also had a banner year in 1940. Net profit of $21,113,507 was equal, after preferred dividends, to $3.30 a share for the common stock, comparing with $1.42 a share reported in 1939. A payment of 40 cents a share marked the first dividend on the common stock since the present company was formed in 1930. The company is planning for the near future a bond issue in excess of $100,000,000 for the purpose of refunding all outstanding long term debt and provide some additional working capital.

The machinery and machine tool industries seem certain to be well represented among companies with record breaking earnings last year. Several are included in the accompanying list.

Total production of Monarch Machine Tool last year was 240 per cent ahead of 1939. On this basis total sales were probably close to $7,000,000, comparing with slightly less than $3,000,000 in 1939. It is expected that the company's final report for 1940 will disclose earnings equal to approximately $4.75 a share after all taxes, which would compare with $3.53 in 1939. The company's output in the first month of 1941 was running 50 per cent ahead of January a year ago.

Bullard Co., another leading manufacturer of machine tools, will doubtless show at least $5 a share earned last year, even after allowance (*Please turn to page 553*)

1941 Security Appraisal and Dividend Forecast

Part II—Equipments, Steels, Metals, Building Materials, Liquor

The investment outlook for 1941 is highly unusual in that a record-breaking volume of business activity is assured—but with the prospect for earnings and dividends by no means proportionately assured. An armament-war-orders boom is an economic abnormality. The benefits in terms of increased volume are unequally distributed among the industries. The present and potential costs and mal-adjustments—such as higher operating expenses, raised taxes, priorities, etc.—are also very uneven in their impact on net earnings available for shareholders.

The tax bill which is expected to be formulated by late Spring is the greatest single uncertainty in this year's earnings outlook; and earning power, of course, is the controlling factor behind dividends. It is not known whether the normal corporate tax will be further raised or whether the major change will be in the severity of the excess profits tax rates or in confining their base.

The letters A, B, C, D, E, indicate our judgment of the basic investment quality of each security, based on earnings and dividend record, financial strength, management, trade position, growth prospect, operating flexibility, etc. The numerals 1, 2, 3 indicate current earnings trend.

BASIC INVESTMENT QUALITY	CURRENT EARNINGS TREND
A—High Grade	1—Upward
B—Good	
C—Medium Grade	2—Steady
D—Marginal	
E—Low Grade	3—Downward

We reason that the important thing for investors is not the total amount of taxes that a company may pay, but net earnings *after taxes*. One company, for example, may be liable to heavy excess profits taxes and still have net earnings substantially larger than its past average. Another may pay no excess profits tax and yet have earnings under past average. On this reasoning, the tabulations on following pages include a "Tax Rating" based on our judgment of each company's general earnings potentiality in relation to higher taxes. The chief considerations are volume outlook and operating flexibility or inflexibility. The numeral I is the most favorable rating, II a fair or medium rating, III the least favorable rating.

The tables are also accompanied by our investment ratings, explained in the adjoining box on this page. Issues favored as mediums for safe income are denoted by a star. Issues recommended for cyclical appreciation are marked with an asterisk. Issues favored for both income and appreciation are marked with a dagger. Timing of any purchases, however, should accord with general advice given in our market article in the forepart of each issue.

Part III of this special feature in the forthcoming issue of February 22 will cover Aviation, Chemicals, Motors and Accessories, Oils, Movies and Merchandising, concluding the dividend forecast series.

Mixed Outlook for Equipments

Machine Tools, Electrical and Rail Equipments in Best Position

The past year was one of general prosperity for most machinery and equipment companies, with machine tool lines in particular enjoying one of their biggest years. Burst of new demand in the machine tool industry reflects the trend to thorough mechanization of military equipment; in fact, the desire for machine tools, both by Britain and domestically, has grown so great that the industry represents the outstanding major bottleneck of our defense program. Last year the industry turned out over 100% more machine tools than in the preceding year; the 1941 outlook indicates another gain—probably more than 30% over the approximate $400,000,000 output of 1940.

Prospective broadening of defense production for provision of larger supplies to Britain will bring increased pressure on the industry for greater output, and there is little doubt that it will have all rights of way as to priorities. The complex

composition of machine tool plants requires highly skilled labor and the shortage of such labor is retarding necessary expansion of facilities. It is possible that resort will have to be made to other lines, such as the automotive industry, for skilled workers necessary to man prospective larger facilities. Recently announced program by the War and Navy department, to buy around $100,000,000 of critically-needed machine tools may hasten the recruiting of workers from non-defense lines. The new program, too, should facilitate subcontracting of armament materials, in that it will provide a reservoir of un-earmarked machine tools which may be placed in emergency spots by the War Department. Despite vulnerability to excess profits taxation, most companies will probably show some further gain in earnings this year and the dividend outlook is therefore favorable.

The huge electrical equipment industry experienced one of its biggest years in 1940, but as an indicator of what is in store for this year, the industry entered 1941 with the biggest over-all backlogs in its entire history. Such huge orders reflect not only the jump in demand for defense purposes (particularly in turbines for the Navy) but also the rise in the needs of the utilities, which, of course, represent the backbone for electrical equipment demand. Preliminarily, in fact, it would appear that the electric light and power industry will work this year with a construction budget of from $700,000,000 to $800,000,000. This would compare with about $640,000,000 for 1940 and with the permanent peak to date of about $920,000,000 in 1930.

Thus, in view of the great utility, naval and miscellaneous orders, a large increase in the heavy lines is a certainty. The lighter divisions, including the household equipment lines, will show a relatively smaller advance, but exceptionally high public purchasing power likely this year makes the prospects for these products relatively promising also, although they may in time run into forced curtailment if and as the priorities system is tightened up.

Rising operating costs and indications of still further advances — as well as sharply increased taxes —


Courtesy International Harvester Co.

restrain full optimism as to profits for the industry. Nevertheless, it may be expected to take the possible rise in Federal normal income taxes in stride, even though it probably would not fare well under actual carrying out of current proposals for restricting excess profits taxes to the invested capital base. This is so because invested capital bases on the whole are relatively low. For example, General Electric's $0.94 per share credit on an invested capital basis reveals its vulnerability; Westinghouse, too, is rather low — with a base of about $6 a share.

The railroad equipment industry is in a typical prosperity spot in its prince-or-pauper cycle. Not only does buying by railroads promise to be the largest in years, but defense-program benefits are great. In some cases, armament orders are well in excess of the placements by the railroads, with promise of still further gains. On routine business, the Association of American Railroads only recently indicated that 100,000 new freight cars would be required over the next twelve months to handle increased traffic. This figure tops all production for every year since 1925. As matters currently stand, the car-order record of 1940 was the best since 1929, excepting only the year 1936. An indication of momentum of business may be obtained from the fact that some 35,000 freight cars were ordered in the final four months of 1940, out of a total of around 62,000 for the complete year.

From current indications, producers of freight cars and related items are likely to receive the greatest benefits from the higher railroad buying this year, though locomotive manufacturers likewise face high volume. Profits will be adversely affected by higher operating costs and taxes, but the industry is in an advantageous position as to excess profits taxes—at least on the 1940 basis of taxing. In the event that excess profits taxes are confined

Position of Leading Equipment Stocks

Machinery and Electrical Equipment

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
Allis-Chalmers......	$2.09	$2.75	$1.50	I	B-1	Larger dividends than in 1940 are a good possibility for this year.
Amer.Mach.& Fdry.	1.04	1.25	0.80	II	C-1	Maintenance of dividend or small increase indicated for 1941.
Amer. Mch. &Metals	d0.44	....	....	III	D-2	May achieve profitable operations this year on rising business.
†Babcock &Wilcox..	1.74	4.00	1.40	I	C-1	Excellent earnings outlook points to larger dividends.
Black & Decker.....	1.60s	A.2.28s	1.35	I	C-1	Increased dividends are a strong possibility for 1941.
*E. W. Bliss........	d0.99	3.00	....	I	C-1	Initial dividends are likely to be paid this year.
Bucyrus-Erie........	1.10	A.1.55	1.00	I	C-1	Bright prospects for heavy construction promise higher dividends.
†Bullard...........	1.04	5.00	2.00	I	C-1	Though likely to be hard hit by excess profits tax, dividend outlook good.
†Caterpiller Tractor...	2.89	A.4.16	2.00	I	B-1	Higher volumes, earnings and dividends in prospect this year.
Chicago Pneu. Tool..	0.33	2.50	....	I	C-1	Dividends may be inaugurated this year on small scale.
Compo Shoe Mchy..	1.92	2.00	1.00	II	C-1	Maintenance of dividends, at least, in prospect for 1941.
Crocker-Wheeler....	d0.21	0.35	....	II	C-1	Resumption of dividends is in prospect this year.
†Cutler-Hammer....	1.23	2.00	1.50	II	C-1	Small increase in dividends will be considered.
†Ex-Cell-O Corp....	2.21	4.50	2.30	I	C-1	Fast rising sales and earnings indicate a dividend increase.
†Fairbanks, Morse...	4.12	4.50	3.00	I	C-1	Somewhat higher dividends in prospect for 1941.
†Food Machinery...	2.32S	A3.70S	1.60	I	B-1	A substantial increase in the dividend is likely this year.
Foster Wheeler......	d0.10	2.25	....	I	C-1	Resumption of dividends obviated by large arrears on preferred stock.
Gen'l Electric......	1.42	2.00	1.85	II	A-1	Slightly higher dividends likely for this electrical equipment leader.
Ingersoll Rand......	6.01	7.50	7.00	II	B-1	Dividend for 1941 may be about unchanged from last year.
Link-Belt..........	2.23	3.00	2.00	I	C-1	Small increase in disbursement possible this year.
Mesta Machine.....	2.72	3.25	2.00	I	C-1	Larger dividends than in 1940 are likely this year.
Monarch Mch. Tool.	2.52	6.00	3.50M	I	C-1	Additional increases in dividends are in prospect.
Myers, F. E. & Bro..	4.00O	A4.86O	4.00	II	B-1	Small advance in dividend payments seems likely.
†Nat'l Acme.......	1.16	3.75	1.00	I	C-1	Though taxes will be heavily absorptive, dividend prospects are bright.
Nat'l Supply.......	d0.87	....	....	III	C-1	Dividend resumption awaits clearing of arrears on preferred stocks.
Niles-Bement-Pond..	4.71	9.00	2.75	I	C-1	Substantial further rise in disbursements likely this year.
Savage Arms.......	2.08	4.75	4.00	I	C-1	Armament business hits all-time high, dividend outlook is bright.
Square D..........	3.02	4.00	2.80	I	C-1	Small dividend rise over 1940 appears likely for 1941.
United Engr. &Fdry..	2.54	4.25	4.00	I	C-1	Disbursements this year may be approximately unchanged from 1940.
U. S. Hoffman Mchy.	d0.11	1.25	....	II	C-1	New lines & improved consumer buying power may permit dividends this year.
Van Norman Mch.T'l.	1.45	3.00	1.10	I	C-1	Additional rise in dividend is possible during 1941. Recently split 2-1
Walworth..........	0.12	0.65	....	I	C-1	Bright outlook for construction points to resumption of small dividends.
Wayne Pump.......	3.23N	3.50N	2.00	II	C-1	Moderate increase in disbursements may be made this year.
†Westinghouse E. & Mfg............	5.18	A.7.10	4.75	II	A-1	Rise in dividends over 1940 likely as earnings continue gains.
Weston Elec. Inst....	3.03	3.58I	2.00	I	C-1	Further advance in dividend distributions likely this year.
*Worthington Pump..	0.54	5.00	....	I	C-1	Preferred arrears, equal to $9 per share, may be cleared this year.

A—Actual. d—Deficit. S—Year to September. O—Year to October. N—Year to November. E—Estimated. M—Plus 40% stock. I—9 mos. ended Sept. 30. *—Recommended for cyclical appreciation. †—Recommended for income and appreciation.

solely to the invested capital base, there would be no harm done, except in a small minority of instances. All things considered, the dividend outlook for this industry may be looked upon as definitely promising.

Farm equipment sales volume last year was close to the levels of 1937, in which the total approximated $507,000,000. The sales results of the leading companies reflect gains in 1940 running about 20% over the $410,000,000 total of 1939. Cash farm income last year ran slightly over that of 1939, and current trends indicate further improvement this year. For the current fiscal year, in fact, leading farm equipment manufacturers are anticipating a minimum 10% gain over that of the year ended October 31, 1940. The likelihood of increased farm purchasing power is not the only basis for expecting this advance, or a bigger increase. Farm machinery producers have made their products more appealing, not only through substantial re-designing, but also through the addition of new lines.

Although exports last year were up somewhat, the outlook there cannot be considered as particularly bright. The majority of European markets were shut off in 1940, and no change in this situation appears likely for 1941. A considerable volume of business, however, was done with England last year, and if shipping facilities are not excessively monopolized by arms and related materials, it is possible that exports to England may likewise be heavy this year. In the important Canadian and South American markets exports should rise, but this may be dependent in some degree on the availability of dollar exchange for agricultural machinery. Cutting off of a considerable part of export markets for farm products in these countries is naturally a drawback to acquiring implements to expand production further.

With respect to armament benefits, the farm machinery industry has received no great impetus as yet. Unless faster benefits accrue from the defense program, the industry's volume increase, accordingly, may be small compared to some of the gains likely to be experienced by the more direct armament beneficiaries. It is noteworthy, however, that the

industry is not generally vulnerable to excess profits taxes, while the confinement of such taxes to the invested capital base would not result in profits being hit on this score. On the whole, the dividend outlook for this industry is one of no great changes, with the year 1941 likely to produce only slightly more for stockholders than the past year.

The office equipment industry had the best sales volume year in 1940 since 1937. There is no question that last year's record would have broken the all-time record established in 1937 if it were not for the loss of export markets due to the war. During the latter year more than $37,500,000 of domestic production, or about 22% of the aggregate, was being exported, but current exports are running closer to $20,000,000 yearly, including the larger exports to South America. As an item affecting the future, however, it is noteworthy that Canada has added various types of office equipment to its list of products barred from importation.

Last year's volume in this country exceeded all past records for the office appliance industry, and it is likely that domestically the record may be broken again this year, partly reflecting the likelihood of the trade obtaining armament business. Some benefits have been indirectly experienced by the office equipment industry in reflection of our arming, but these have been at least fully offset by the practical elimination for the major part of 1940 of the European Continental export market.

Exclusive of such stimulation as might materialize from manufacture of precision devices for defense materials, the industry is likely to benefit from the expected greater level of public buying power this year, the high degree of obsolescence in domestic business machines and requirements for further labor-saving devices, owing to loss of employees for military service. The outlook for dividends in this industry shows a potential average maintenance at about the 1940 rate, with a few companies likely to cut dividends slightly and some likely to make small increases. The industry on the whole, however, is rather vulnerable to excess profits taxes.

Position of Leading Equipment Stocks

RAILROAD

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
Amer. Brake Shoe...	$2.39	$3.25	$2.10	I	B-1	Rising sales and earnings indicate increased divs.
*Amer. Car & F dry .	d6.15Ap	Ad3.40Ap	....	I	C-1	Dividends likely to be resumed this year.
Amer. Locomotive..	d4.45	1.50	....	I	C-1	Large arrears on preferred obstruct common dividend payments.
†Amer. Steel Fdries.	1.15	2.50	1.50	I	C-1	Higher dividends than in 1940 likely this year.
*Baldwin Locomotive	0.41	1.65	....	I	C-1	Initial divs. on this stock may be paid in 1941.
†Gen'l Amer. Transp.	3.11	4.25	3.00	I	B-1	Dividend prospects bright; earnings in steady up trend.
Gen'l Rwy. Signal...	0.34	A1.21	0.50	I	C-1	Increased dividends likely this year.
Lima Locomotive...	d0.64	0.50	....	I	C-1	Dividend resumption is in prospect for 1941.
†Nat'l Malleable...	2.60	3.50	1.75	I	C-1	Larger dividends definitely in 1941 outlook.
N. Y. Air Brake....	2.89	5.00	3.00	I	C-1	Sharp earnings uptrend and good prospects indicate higher dividends.
Poor & Co. "B"....	0.96	1.25	....	I	C-1	Dividend arrears on Class "A" stock obviate early payments on common.
Pressed Steel Car....	d1.71	2.50	....	I	D-1	Preferred stock arrears preclude near term dividend resumption.
†Pullman Co.......	1.05	2.25	1.50	I	C-1	Slightly larger dividends may be disbursed this this year.
Superheater Co.....	0.67	2.00	1.40	I	C-1	Moderate increase in dividends over the 1940 total likely.
Symington-Gould W. W...........	d0.68Ja	A0.80Ja	0.25	I	D-1	Higher rate is in prospect for 1941 dividends.
Union Tank Car.....	2.07	2.30	1.75	I	C-1	Small addition to the 1940 total dividends likely this year.
West'i'se Air Brake	0.87	2.25	1.75	I	B-1	Maintenance of current rate or small increase likely.
†Youngstown Steel Door............	1.20	2.25	1.50	I	C-1	Substantal rise in dividends appears in 1941 prospect.

A—Actual. d—Deficit. Ap—Year ends April. J—Year ends January. E—Estimated. *—Recommended for cyclical appreciation. †—Recommended for income and appreciation.

AGRICULTURAL

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
J I. Case.........	d$1.87O	....	$3.00	II	C-1	Somewhat larger dividends will be considered this year.
†Deere & Co......	1.82O	$3.00O	1.50	II	C-1	Further rise in dividends is in prospect.
†Int'l Harvester....	1.71O	4.00O	2.40	II	B-1	Increased dividend rate likely to be effected.
Minneapolis-Moline	d0.82O	0.10O	....	I	D-1	Large arrears on preferred stock obviate common dividend payments.
Oliver Farm Equip..	1.27	2.00	....	II	C-1	Initial dividends of $0.50 a share on this stock recently paid.

d—Deficit. O—Year ends October 31. E—Estimated. †—Recommended for income and appreciation

BUSINESS

	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
Addressograph-Multigraph......	$1.35	A$0.78Jy	$1.20	II	C-2	Decline of foreign business may entail somewhat smaller dividends.
Burroughs Adding.	0.44	0.55	0.50	II	C-2	Possible 15c quarterly rate may be maintained this year.
Int'l Bus. Mach....	10.63	10.00	6.00	II	A-2	Dividend maintenance likely despite vulnerability to excess profits tax.
Nat'l Cash Register.	1.10	1.25	1.00	II	C-2	Narrow margin over dividend rate makes full continuation uncertain.
Pitney-Bowes......	0.70	....	0.50	II	C-1	Dividend rate may be approximately unchanged from 1940.
Remington-Rand...	0.59M	A0.94M	0.80	II	C-1	Prospects hold forth little indication of dividend change.
★Royal Typewriter.	5.17Jy	A7.91Jy	5.00	II	B-1	Earnings outlook relatively favorable; but regular rate may not be increased.
Smith & Corona ..	0.96Je	A0.90Je	0.50	II	C-2	Maintenance of current rate likely despite slightly smaller earnings.
Tela.tograph......	0.37	0.45	0.20	II	C-1	Small increase over 1940 rate may be made this year.
Underwood El. Fisher	2.53	2.75	2.25	II	B-1	Dividend prospect is approximately unchanged from 1940.

M—Year ends March. Je—Year ends June 30. Jy—Year ends July 31. A—Actual. E—Estimated. M—5% stock. ★—Recommended for income.

Courtesy Carnegie-Illinois Steel Corp.

Record Year for Steel

Earnings and Dividends Likely to Be Moderately Higher

REFLECTING the initial pressure of our armament program, output last year of open hearth and Bessemer steel ingots reached the record-breaking total of 65,246,953 tons. This exceeded by a 7% total the previous peak in 1929 of 60,829,752 tons and topped by 26% the 1939 aggregate of 51,584,986 tons. For the establishment of this record, the steel industry operated at 82.22% of the capacity which existed as of December 31, 1939. The 1929 operations were at an average rate of 89.05% of capacity, but the capacity of that year was smaller than current because of the expansion through the past decade. Operations in the year 1939 ran at 64.70% of capacity. The best perspective on momentum, however, may be obtained from the fact that the industry operated at an average of 95.49% of capacity in the last quarter of 1940.

Even more outstanding (on a percentage basis) was the rise last year in electric furnace steel output, which approximated 2,000,000 tons, compared with 1,029,000 tons in 1939 and the preceding peak of 1,066,000 tons in 1929. This record was permitted to a large extent by the considerable additions to capacity through 1940. Although the majority of steel companies are likely to report the attainment of all-time records in sales during 1940 operations, this is not true of profits. Higher operating costs and taxes, as well as the maintenance of relatively low steel prices have kept profit margins comparatively narrow; large volume, however, enabled in sum total the best earnings for the industry since 1929.

The 1941 prospect, as currently viewed, points to another record volume year. Backlogs of many steel companies are at an all-time summit, with incoming business likewise high. Following the preliminary satisfaction of needs for the armament program, there may be a tendency toward letdown this year, but this will be counteracted by the anticipated improvement of ordering from the railroad equipment, container and oil industries. And, then, the greater need for steel in defense of the British Empire indicates no slackening in our heavy export demand as long as the war continues. As a matter of fact, an early rise is foreshadowed in the declared intention of the British to bring purchases to around 500,000 tons a month, while Canada is scheduled to take around 125,000 tons monthly. Continuance of the 20% ratio of exports to aggregate sales appears likely for the time being.

Expansion of capacity is likely to contribute heavily to the potential establishment of another annual peak in output this year. The report of the National Resources Planning Board is noteworthy for its implication that great expansion of the steel industry is necessary; in fact, the National Economic & Planning Association, using the Resources Board figures, requested a 20% expansion of the industry. The point in this instance was emphasized that the rationing system talked of in some quarters would bring excessive dislocation to many industries. Additional expansion thus is in the cards; moreover, this is getting under way rapidly. Figures which have just come to hand reflect readjustment of the industry's ingot capacity to 84,148,000 tons, as of Dec. 31, 1940. The leeway for larger output is thus considerable, even without expansion, since output last year approximated 65,000,000 tons.

Current and coming expansion naturally will change the meaning of the capacity-operation ratio, but on the basis of the capacity as it stood at the end of 1940, operations above 90% of capacity seem likely for some months to come. Due in some part to the enlarged electric furnace capacity, it appears likely that new peaks are likewise in the offing for this division. Production of such grades, in fact, should run well above the 2,700,000-ton total, with substantial additional expansion made necessary by rising demand. This thought likewise applies to alloy steels and such high grade steels as stainless, silicon, tool,

Position of Leading Steel Stocks

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
†Acme Steel	$5.82	$7.00	$3.00	I	B-1	Rise in dividends over 1940 likely as earnings gains continue.
†Allegheny Ludlum	1.49	3.00	1.50	II	B-1	Larger dividends are a good possibility for 1941.
Amer. Rolling Mills	0.69	1.25	0.25	I	C-1	Dividend outlook considerably improved ove· that of 1940.
Bethlehem Steel	5.75	A$14.04	5.00	I	B-1	Increased disbursements definitely in prospect for this year.
Byers (A. M.)	0.53S	A0.97S	....	I	D-1	Preferred arrears, still large, block payments on common stock.
Col. Fuel & Iron	0.10J	A3.10J	0.25	I	C-1	Larger dividends than in 1940 are likely for this year.
Continental Steel	5.37	2.75	1.50	III	C-3	Maintenance of current rate, at least, is in prospect for 1941.
*Crucible Steel	2.54	9.00	....	I	C-1	Dividends may await completion of deposits on old 7% preferred stock.
Granite City Steel	0.91	1.00	0.25	II	C-1	Moderate rise in dividends likely this year.
Inland Steel	6.73	A8.87	5.00	I	B-1	Despite excess profits tax vulnerability, dividends increase possible.
Interlake Iron Corp.	d0.28	0.25	....	II	D-1	Shortage of pig iron and coke improves earnings prospect.
*Jones & Laughlin	d1.60	A10.70	....	I	C-1	Heavy arrearages on preferred stock obviate dividend payments.
Keystone Steel & Wire	1.18J	A1.87J	1.00	I	C-1	Small increase over 1940 dividends seems likely this year.
McKeesport Tin Plate	0.25	0.75	....	II	C-1	Rejuvenated earning power points to resumption of small dividends.
National Steel	5.71	A$6.83	2.50	I	B-1	Increase in rate a definite prospect in spite of tax vulnerability.
Otis Steel	d0.59	d	....	III	C-1	Substantial arrearages on preferred preclude payments on common.
†Republic Steel	1.46	A3.30	0.40	I	C-1	Following recent resumption, dividend prospect is good this year.
Sharon Steel	d0.11	2.25	0.25	I	C-1	Sharp earnings rebound and good outlook indicate dividend rise.
Superior Steel	1.55	2.50	....	I	C-1	Dividends on small scale may be considered this year.
U. S. Pipe & Fdry	3.69	A3.45	2.50	II	B-1	Maintenance of the present rate likely over intermediate term.
†U. S. Steel	1.83	A8.84	3.00	I	B-1	Promising prospects for this backbone enterprise, indicate larger dividends.
Wheeling Steel	6.34	A6.59	....	I	C-1	Small dividends likely to be considered; would be first for this stock.
†Youngstown S. & T.	2.50	A5.96	1.25		C-1	Larger dividends are in prospect for 1941.

A—Actual. d—Deficit. J—Year ends June. S—Year ends Sept. E—Estimated. *—Recommended for cyclical appreciation. †—Recommended for income and appreciation.

valve, nitrated and similar types.

Alloy steel melting capacity thus is on the rise, not only because of demands from the currently booming automotive industry—which long has represented the most important customer for this kind of steel, but also because of pressing demands for armament production. Even the food processing, radio and household utensil industries are stepping up their demands, partly for fear of being left in the cold as priorities are in the making for the defense lines. Accordingly, alloy steel makers now are exceeding all their previous prosperity periods by a wide margin.

While the foregoing factors point definitely to record-breaking output for 1941, the profit outlook relatively is not so bright. This reflects prospective higher taxes, rising material and labor costs and the outlook for close Federal supervision of prices. Priority applications, as well as the spreading of defense work through subcontracts to manufacturers not now engaged in such work, are probable and may break certain routines, as well as cause replacements of relatively wide-profit-margin work with activity of a less profitable nature. One of the principal reducers of profit margin may come in the form of increased wages. Judging from recent payrolls of the industry, a 10% average increase (with a general operating rate of 90%) would involve about $100,000,000 annually for the trade as a whole. It is likely, too, that there will be further advances in material costs, in line with the broadly persistent, if slow, rise in the commodity trend.

Federal supervision of prices, it is clearly indicated, will be close, but it is believed possible that an advance in steel wages, for example, might entail some permissible price adjustment. It might also be noted that profit margins of the industry are usually largest when it is able to use its plant close to, or at, full capacity. More recent additions to plants, too, are beneficial from the standpoint of yielding high returns, since they have been built with an eye to modern efficiency.

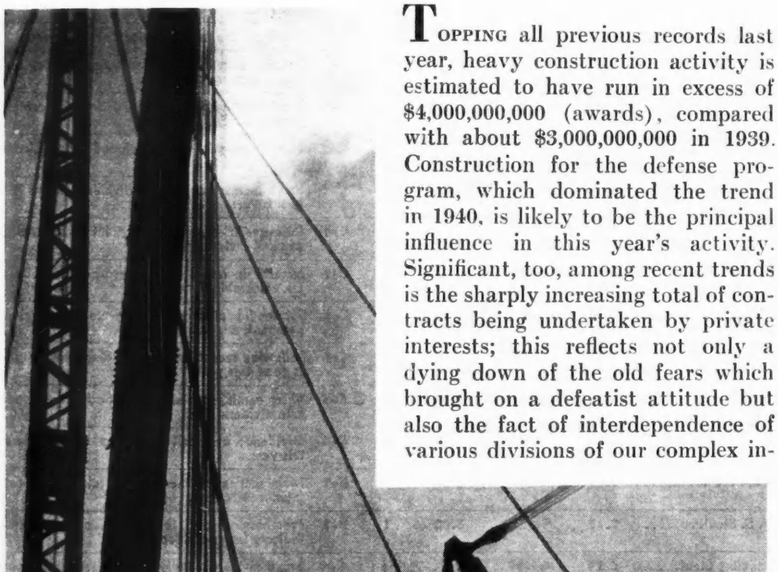
Tax-wise, the industry is in a relatively strong position, though there are important exceptions. Bethlehem Steel, for example, may show for 1940 excess profits taxes equal to around $1 a common share. Inland Steel has the rather low invested capital base credit of $5.76 a common share, and may have to pay almost $1 a share in excess profits taxes for 1940, even though this is on the basis of average earnings, for which the exemption runs up to $6.03 a share. National Steel, too, will pay an excess profits tax for 1940—probably about $0.75 a share. On the other hand, there are a number of high credits, with leeway for considerable earnings expansion before being affected by excess profits taxes, as currently constituted. Prominent among these are Jones & Laughlin, Pittsburgh Steel, U. S. Steel and Wheeling Steel. Republic Steel is about on the line between paying and not paying an excess profits tax.

It is likely, of course, that there will be some tightening of exemptions under the law this year. There is talk both of confining the excess profits tax to the invested capital base and of taking greater cognizance of the fact that the lighter industry lines which are benefiting less from the armament program should be favored in some way.

This might actually mean consideration of an earnings base for taxation, since it is in this division that such lines are strong. So long as the invested capital base is used for figuring excess profits taxes, however, steel securities may be considered to be less vulnerable than the majority of the other classifications.

Boom in Heavy Construction

Residential Building Gain Doubtful



Nesmith Photo

Topping all previous records last year, heavy construction activity is estimated to have run in excess of $4,000,000,000 (awards), compared with about $3,000,000,000 in 1939. Construction for the defense program, which dominated the trend in 1940, is likely to be the principal influence in this year's activity. Significant, too, among recent trends is the sharply increasing total of contracts being undertaken by private interests; this reflects not only a dying down of the old fears which brought on a defeatist attitude but also the fact of interdependence of various divisions of our complex industrial system, including even armaments.

With the bulk of defense plant building to be actually accomplished this year, additional records are in sight. The steel, shipbuilding, machine tool, aluminum, aircraft, munitions and chemical industries are among those which have large expansion programs under way. The Administration is pressing for immediate enlargement of the country's productive plant facilities, with the thought of having these additional factories in operation by the second half of 1941. Government placements for defense construction now exceed $1,000,000,000, although the spendings for these allocations runs not much over $350,000,000.

The bright prospect is not confined to the heavy division of the building industry; probably the outstanding item for Federal defense construction involves an expenditure of approximately $650,000,000 in shelters for trainees. This is practically an emergency construction job, with early completion likely. Besides purely military dwellings, however, the defense program is affecting the lighter construction lines in another way, i.e., sharply greater employment in defense-plant centers has created substantial shortages of housing accommodations.

As for the non-defense residential construction outlook, the prospect relatively is not so favorable as in other sections of the building industry. Builders are estimating, however, that residential construction this year will approximate that of 1940 in the number of units built, if the United States remains at peace. Dollar volume probably would be somewhat greater, because of likely rises in building costs, due to higher wages and materials prices. This comparatively optimistic sentiment is based on potential record-breaking national income this year and encouragement given the industry through the FHA. On the other side of the question, however, is the apprehension over American participation in the war, as well as the likelihood of sporadic labor shortages and the prospect of instituting priorities favoring the armament industries. These may have the net effect of cutting non-defense residential construction to figures below the 1940 aggregate.

For the public works division, the outlook indicates approximate stability. Certain divisions of heavy building materials, such as cement, are benefiting from the cutting off of foreign imports; glass, gypsum, lumber, plumbing and heating equipment manufacturers and related lines likewise face a favorable year for 1941. Even the much-discussed prefabricated housing lines are likely to come into their own finally this year, in response to the urgent need for housing at air and naval bases and many defense-booming industrial communities. The U. S. Navy, in fact, now has under consideration the purchase of a large number of such units.

With regard to profits, once again price controls, high and rising labor costs and the likelihood of increased Federal normal income taxes detract from the earnings outlook. Under the emergency pressure of the defense program, however, there can hardly be time for scrutinizing profit margins. Plant construction is basic to the speeding of the armament program and it thus may be expected to hit a fast pace. Higher normal taxes would slow down the rate of growth in earnings, but it is noteworthy that the potential restriction of the excess profits tax base to invested capital would make no great difference to the industry as a whole.

Position of Leading Building Stocks

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
*Alpha Portland Cement	$1.17	1.75	$1.50	II	C-1	Heavy industrial construction in Eastern area augurs favorably for 1941 prospects.
Amer. Encaustic Tiling	0.12	0.25	....	III	D-1	Indifferent earnings prospect offers scant dividend encouragement.
Amer. Radiator	0.34	0.50	0.40	II	C-1	Volume of business being well sustained. Further dividends likely.
Armstrong Cork	3.03	3.50	2.00	II	D-2	Prospects over near term may involve higher raw material costs. Higher divs. not indicated.
Celotex	0.95Oc	A0.96Oc	....†	II	D-1	Capacity operations and rising volume of orders suggest further dividends.
Certainteed Prods.	d0.14	d	....	II	D-1	Earnings gaining but preferred accumulations preclude common dividends.
Congoleum Nairn	1.70	1.75	1.25	II	D-2	Earnings should hold at levels sufficient to support present dividend rate.
*Crane Co.	1.55	2.00	0.80	II	C-1	Outlook favors increasing sales volume accompanied by further dividends.
Devoe & Raynolds "A"	2.08N	A1.16N	0.25	III	D-2	Dividends recently resumed. Outlook fair with dividend prospects speculative.
Flintkote	2.11	2.10	1.00	II	C-1	Sales at record levels but earnings gains restrained by higher taxes.
Fuller (G. A.)	0.50	6.00	5.00	II	C-1	Large defense contracts foreshadow substantial earnings.
Gen'l Bronze	d0.18	d	....	III	D-3	Current prospects unimpressive and dividends unlikely.
★Holland Furnace	3.11	3.50	2.50	II	B-1	Further gains likely in current earnings. Liberal dividends assured.
*Johns-Manville	4.28	5.00	2.75	II	B-1	Defense orders bulk large. Earnings should hold despite higher taxes.
*Lehigh Port. Cement	2.71	2.75	1.50	II	C-1	Rising cement demand should warrant further dividends.
*Lone Star Cement	3.49	A3.55	3.50		C-1	Higher costs cut ratio of net to gross. Dividend margin suggests speculative position.
Masonite	1.99Ag	A2.91Ag	1.50	III	C-3	Recent earnings sharply lower due to higher costs and taxes. Dividends vulnerable.
Minn. Honeywell	3.27	3.50	3.00	II	C-2	Earnings should be well sustained, with corresponding support to dividends.
Nat'l Gypsum	0.94	1.00	0.40	II	C-2	Taxes will restrict earnings gains. Dividends speculative.
Otis Elevator	1.18	1.50	1.00	II	C-2	Diversifying activities to include ordnance should aid earnings.
Paraffine Cos	2.80J	A3.40J	2.25	II	C-2	Recent earnings down, but prospects fairly good. Conservative dividends safe.
Penn-Dixie Cement	d1.22	d	....	III	D-1	Marked improvement may aid possible recapitalization and elimination of preferred arrears.
★Ruberoid	1.53	1.50	1.30	II	B-2	Company has enviable dividend record. Continued payments assured.
★Sherwin-Williams	5.96Ag	A6.57Ag	3.00	II	B-2	Sales setting new records. Current dividends should ecual 1940 rate.
Thompson-Starrett	d0.63Ap	dA0.02Ap	....	II	D-1	Recent earnings in the black, but early dividends unlikely.
U. S. Gypsum	5.62	5.00	3.50	II	B-2	Taxes and higher costs prevent larger sales from being reflected in net.
Yale & Towne	2.10	2.25	1.00	II	C-2	Earnings should warrant dividends on a par with 1940 payments.

A—Actual. Ag—Year ends August. Ap—Year ends April. d—Deficit. J—Year ends June. N—Year ends November. Oc—Year ends October. †—Resumed dividends with payment of $0.25 on Feb. 4. ★—Recommended for Income. *—Recommended for cyclical appreciation.

Liquors

In contrast to the comparative stability displayed by the beer industry in 1940, the hard liquor industry experienced sales gains exceeding 10% last year over 1939. Holiday business for the whiskey trade generally, in fact, was close to a record. The distilling industry finally has worked its way through approximately half of the huge overhanging stock of bonded liquor that was started in 1936 and 1937. The 1936-dated liquors have been fairly well worked off, but the 1937 vintages were even larger and promise to weigh heavily on the market for a good part of the current year, in the latter part of which the inventory problem will become less burdensome.

Despite apprehension in some quarters that the price structure might be adversely affected by the huge amounts of bonded whiskey now coming of age, this actually has not been the case in the degree expected. Earnings last year, as a matter of fact, were generally as good or better than in 1939. This year's prospects, however, tie in with more than the average number of uncertainties. Principal among the industry's fears is the tax question. The increase of $0.75 a gallon in the Federal excise tax last year was moved

(Please turn to page 560)

Position of Liquor Stocks

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
Angostura-Wup	$0.12	0.15	$0.05	III	D-2	Small payments are likely to be maintained.
Austin Nichols	d2.74Ap	dA1.89Ap	....	III	D-2	Dividend outlook continues unfavorable.
Dist. Corp.Seagrams	3.29J1.	A5.08Jl.	2.22	II	C-2	Moderate dividend increase over 1940 possible this year.
Nat'l Distillers	3.43	3.25	2.00	II	C-2	Maintenance of current dividend rate likely.
Schenley Dist	2.52	A2.74x	....	II	C-2	Heavy bank loans obviate near term dividend resumption.
★H.Walker-G. & W.	6.58Ag	A7.60Ag	4.00	II	C-2	Dividend maintenance likely in spite of increasing tax burden.

A—Actual. Ag—Year ends August. Ap—Year ends April. d—Deficit. E—Estimated. x—12 months ended Aug. 31, 1940. ★—Recommended for income.

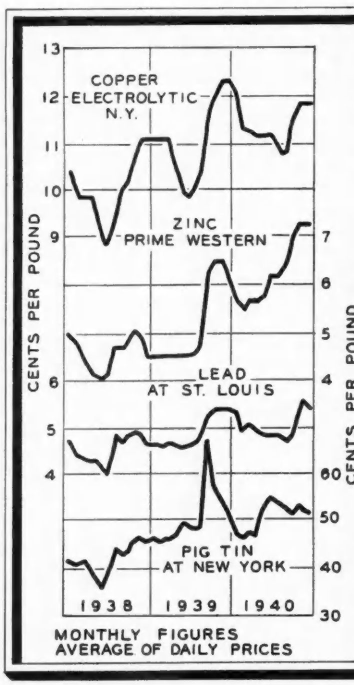
Metals Group Operates Near Capacity; Price Controls Restrict Earnings

PRODUCTION and shipments in the metals trades in 1940 reached such high rates as to tax the available facilities of the various sections of this important industrial group. Low prices and rather high operating costs, however, made for a comparatively small profit margin, though in the aggregate the group enjoyed one of its best years. The present year has begun with prospects of a record-breaking rate of domestic shipments, contingent, of course, on war continuation, or at least prolonging of our own defense efforts.

Although it is likely that domestic production of principal metals this year will top that of 1940, it seems less certain that the current rate of production will be greatly enlarged, except possibly in the case of zinc and aluminum, in that it already is so high. Rather than encourage development of facilities here for increasing production of copper and lead, it is more likely that the Administration will seek to import more copper and lead from South American countries. The threat of this large potential Latin American supply, as a matter of fact, represents a distinct curb to price rises, such as would normally be generated by the great British and American demand.

With clear indications that a price ceiling is in sight for most metals, the industry cannot hope to enlarge profit margins this year, about the only favorable factor being whatever increased efficiency might result from complete utilization of all facilities. The tax situation, too, is disturbing, for in spite of allowances for depletion which permit considerable automatic tax exemptions, the combination of higher normal Federal income taxes, along with the institution of the excess profits tax, obviated earnings increases in some instances last year and may do so more extensively this year.

As concerns specific metals, copper shipments in late months of 1940 were running about 100,000 tons monthly. The exceptional demand, caused partly by anticipatory moves of consumers, resulted in the Metals Reserve Company, a subsidiary of the R F C, arranging for importation of 100,000 tons of Latin-American copper at a ten-cent-per-pound price. Manufacturers with Government defense contracts will be able to get this copper for twelve cents a pound, in the early Spring, the Government taking the difference of two cents a pound in place of the normal four-cents-a-pound tariff.



Intention of the Government to fall back on Latin-American copper thus is clear, with indications that the domestic price of copper may be pegged around the twelve-cent level. Supplies of copper in the hands of our Southern neighbors have increased materially since the entry of England into the European war, as this resulted eventually in the cutting out of a large part of the export trade. Noteworthy in this respect is the fact that Chile, Peru and Mexico combined turned out about 450,000 tons of copper last year, and this at a rate well under capacity. As matters stand, even Japan might be eliminated from the customer roster of Latin America if relations of that country with the United States become worse. These considerations are pointed out merely to indicate the availability of a large (and growing) supply of neighbor-country copper if any threats of a runaway price structure should develop. Well worth noting, as a contrast to the skyrocketing prices of the World War, are the contracts signed by British Empire producers to turn over all their export surpluses to Great Britain at the equivalent of nine cents a pound, American funds.

Thus, while the current year shapes up like a record-breaker from the viewpoint of volume, the profit margin from present indications will be definitely smaller. Fortunately, the copper mining group as a whole is in a favored profits tax position, at least on the 1940 basis for these taxes. It is difficult to forecast what the 1941 basis might be, but at least it is significant that the industry, with a few exceptions, has a relatively high invested capital base. In the event of confinement of excess profits taxes to this base (as some Government authorities would like to see it), the industry would be favorably situated on the whole.

In the instance of lead, too, business has been booming. Consumption last year exceeded 600,000 tons, with an average around 50,500 tons monthly. Toward the close of the year consuming channels were taking lead near the 65,000 a month level. On the all-important matter of supply, price and demand for lead in 1941, it appears likely that refined production in this country may run over 55,000 tons a month, about 20% of which may represent the output of foreign mines. Thus, although consumption is running in excess of output in domestic mines, there is little worry over supplies of this commodity, because of the substantial amounts available from other countries, including Mexico, Canada, South America, Australia

and elsewhere. Capacity for refining lead runs around 1,000,000 tons annually in this country and about 300,000 tons yearly in Mexico. Canada has a capacity of about 180,000 tons and Peru 40,000 tons.

Obtainment of this foreign lead depends, of course, on the attractiveness of the price here. Lead began 1940 at 5½ cents a pound delivered, New York, and likewise wound up the year at this price, ranging in the interim between 5.80 cents and 4.75 cents a pound. Even at 5½ cents, lead has been flowing into the country, despite the 2⅛ cents a pound duty on imports into the United States and in spite of such additional costs as freight, insurance, lighterage, extra transportation charges, etc. As a matter of fact, domestic imports of refined lead totaled 141,000 tons in the first eleven months of 1940, with the major part of this coming from Mexico. Only a small amount of this is reported to have been sold, most of it having been warehoused.

Thus, as in the case of copper, there seems no justification for expecting the lead price situation to get out of hand. Although spot supply is not great, the potentials are large and increasing because of the great shrinkage of export markets. Accordingly, decreased profit margins very likely will be the rule for this industry, as taxes are likely to be larger, and operating costs generally will tend to rise. Tax-wise, a fairly favorable invested capital base exists to ward off high excess profits taxes, but there are instances of relatively low invested capital bases (such as in the case of St. Joseph Lead). In these instances, confinement of excess profits taxes to the invested capital base, which is one of the possible developments in 1941 taxation procedure, would be detrimental to profits.

Perhaps the tightest situation in the entire field of major metals exists in zinc. Recent supplies have been running close to the actual demand line, rarely exceeding a few weeks requirements. This arises, of course, from the fact that zinc is a strategic import material, and with the cutting off of Poland, Belgium and other large exporting countries (Canada's normally large supply is hardly enough for Empire needs), supply sources are greatly reduced at a time of keenly advancing demand. Peculiarly enough, a large supply of zinc concentrate is available to us from Latin America, but shortage of smelting capacity here and more particularly in South American countries obstructs relief on this score. Speeding up of additions to our smelting facilities will naturally have an influence on prices in this situation, but in any event price increases will be held in check officially.

Washington pressure, in fact, is responsible for the relative pegging of the zinc price at 7.25 cents a pound St. Louis and 7.65 cents a pound New York, though a situation so tight as this could readily get out of hand. Priority establishments, naturally, will be the "out" until the bottleneck, which is more one of smelting than of general supply, can be eliminated. New facilities are expected to be in operation by the middle of the current year. The strong statistical picture for this metal would normally favor an exceptionally sharp rise in price (and therefore in profit margin for the zinc companies), but it is questionable if the Administration, which is carefully policing all metal price trends, will allow much advance. As matters stand, the odds favor a small rise in zinc prices and a comparatively large profit margin for the zinc companies. Larger taxes and

Triangle Photo

Utah Copper Co., one of Kennecott's subsidiaries, operates the largest open cut copper mine in the world.

Position of Leading Metal Stocks

Company	Earned per Share 1939	Earned per Share 1940E	Divs. Paid 1940	Tax Rating	Market Rating	COMMENT
Alaska Juneau......	$0.62	0.50	$0.60	III	C-3	Higher taxes and increased costs becloud dividend prospects.
Alum. Co., Ltd......	20.57	15.00	8.00	I	B-1	Taxes take heavy toll, but net should support generous dividends.
Alum. Co. of America	19.77	16.00	6.00	I	B-1	Lower earnings reflect higher taxes; results still impressive however.
American Metal....	2.12	2.75	2.25	II	C-2	Further moderate gains forecast. Dividends will keep pace with earnings.
Amer. Sm. & Refg...	4.36	4.50	2.75	II	B-2	Dividends conservative in relation to recent and prospective earnings.
Amer. Zinc, Lead & Smelt............	d0.03	0.50	....	II	D-1	Further earnings improvement probable but dividends doubtful.
Anaconda Copper...	2.33	3.00	2.00	II	C-1	Dividends likely to compare favorably with 1940 rate. Prospects fair.
*Anac. Wire & Cable	1.54	3.00	1.50	II	C-1	Current outlook good. May pay larger dividends.
Cerro de Pasco.....	2.27	2.00	4.00	II	D-2	Dividends not assured. Will depend on ability of company to expand sales in U. S.
Climax Molyb......	4.09	2.40	2.20	II	C-3	Earnings reflect loss of foreign orders. Dividends appear at maximum.
Consol. Mng. & Smlt.	2.85	3.25	2.25	III	C-2	Earnings gains will be restricted by fixed prices and heavy taxes.
Dome Mines.......	1.97	2.00	2.00	II	C-2	Dividends will probably be maintained. Company's investment income higher.
Eagle Picher Lead...	1.27	1.25	0.40	II	C-2	Moderate earnings gains probable. could pay higher dividends.
*Homestake Min....	3.54	3.50	4.50	III	B-2	Earnings trend will depend upon severity of new taxes. Dividends fairly secure, however.
Howe Sound.......	5.25	4.50	3.75	II	C-3	Outlook clouded by adverse operating factors in Mexico. Will probably pay $3.
Hudson Bay Min.....	1.90	1.90	2.00	III	C-3	Higher taxes and rising costs obscure current prospects. Dividends speculative.
Inspiration Cons.....	0.70	1.50	0.50	II	D-2	Further earnings gains will require higher copper prices. Dividends likely to be modest.
Interlake Iron.......	d0.28	....	....	III	D-1	May have shown modest profit in 1940, but dividends unlikely in near future.
Int'l Nickel.........	2.39	2.25	2.00	II	B-2	Record sales sustain profits despite tax burden. No change in dividends likely.
*Kennecott Corp....	3.14	3.50	2.75	II	B-2	Excellent domestic prospect should aid earnings. Liberal dividend policy probable.
Lake Shore Min....	3.54J	A2.77J	2.00	III	C-3	Further decline in current earnings forecast. No change in nearby dividends.
Magma Copper.....	3.40	2.75	2.50	II	B-3	Low cost producer. May show some reversal in recent earnings. Dividends unchanged.
*McIntyre Porc.....	4.65M	A4.66M	3.05½	II	B-2	Earnings continue ahead of a year ago. Dividends reasonably secure.
Miami Copper......	1.03	1.05	0.45	III	D-2	Sustained earnings will depend on maintenance of copper prices. Irregular dividends.
Nat'l Lead.........	1.23	1.25	0.87½	II	B-2	Fairly stable earnings likely. No change in dividends indicated.
N. J. Zinc.........	2.70	3.75	3.50	II	B-2	Prospects favor well sustained earnings accompanied by liberal dividends.
*Newmont Mining..	2.11	2.15	1.50†	II	B-2	Shares have substantial asset value. Regular and extra dividends indicated.
*Phelps Dodge.....	1.43	2.45	1.50	II	B-2	Capacity operations and new production may result in record earnings for 1941.
*St. Joe Lead......	2.70	3.10	2.25	II	B-2	Earnings prospect offers adequate support to recent dividend rate.
Silver King Coal.....	0.32	0.40	0.40	III	D-2	Earnings may hold at recent levels but dividends speculative.
Sunshine Min......	2.13	1.65	1.60	III	D-2	Uncertainty over ore reserves obscures earnings and dividend outlook.
U. S. Smeltg........	6.77	7.00	6.00	II	C-2	Earnings may undergo moderate decline. Dividends, however, will probably continue liberal.
*Vanadium-Corp....	3.25	4.00	1.50	II	C-1	Capacity operations assured for some months. Could pay higher dividends.

d—Deficit. A—Actual. E—Estimated. J—Year ends June. M—Year ends March. †—Paid on new stock, after 100% stock dividend in June. ★—Recommended for Income. *—Recommended for cyclical appreciation.

working costs, however, are likely to reduce this margin to a smaller breadth than in 1940.

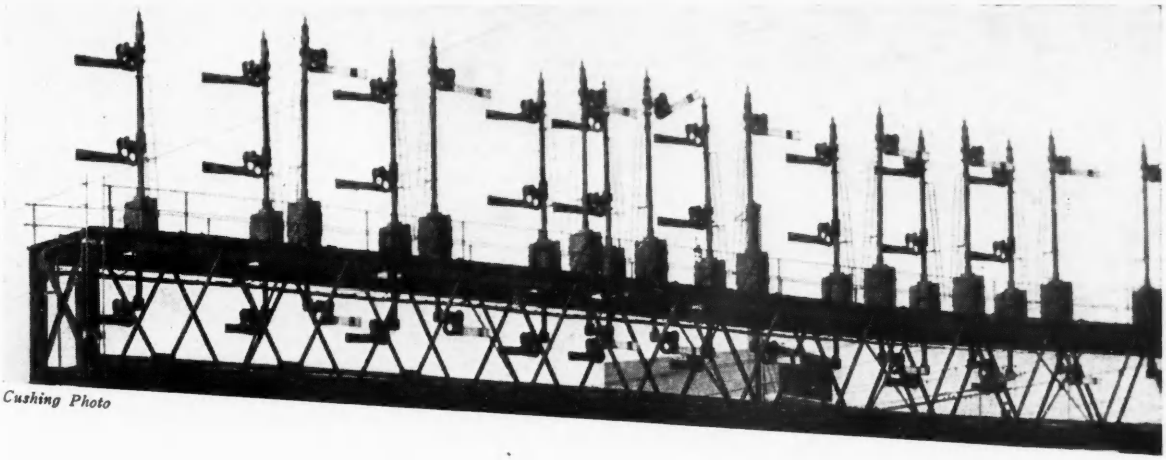
In contrast to zinc, our stocks of another strategic import metal—tin—are rising fast. It is estimated that present imports are running about double the rate of consumption, with the R F C steadily adding to its stock pile and current prospects good for the acquisition of approximately a two-year supply by the end of the current year. As in the instance of zinc, Latin-American concentrates are available, but we do not have the smelting facilities to handle them. Such facilities, however, will be built, with ultimate substantial supplies regularly coming from the above source.

As matters stand, in fact, the price structure is so lacking in basis for general strength (barring war in the Pacific) that the International Tin Cartel may actually restrict production to firm the price, which has been hovering around fifty cents a pound. Thus, there appears from the present perspective no particular reason for large earnings in this industry, though if Anglo-Japanese hostilities are avoided, the few companies in this field might experience somewhat larger profits this year than in 1940.

Aluminum continues to set new records, these having been successive in 1939 and 1940. Shortages are being reported in some instances, but the principal producer in the field has been lowering prices as its costs have declined, and the longer future prospect looks to be one of considerably lower eventual prices, since capacity is scheduled to be increased by 100% in the next twelve to fifteen months. Substantially further long term growth, partly at the expense of copper, is definitely in prospect, with earnings likely to grow along with sales, though in relatively smaller ratio.

Gold and silver mining companies experienced a comparatively stable year in 1940, profits generally running slightly under those of 1939. Prospects for 1941 are relatively unimpressive, considering the likelihood of a constant selling price, for gold at least, while labor, equipment costs and taxes rise. Strangely enough, the defense program is unfavorable to this industry, since an actual serious threat exists that improved business coming from the defense program may bring inflated materials costs and wages, with no probability of an offset in the form of higher prices for the industry's product. Canadian companies would be adversely affected if the Government there should discontinue the premium price of $38.50 an ounce for gold, or place larger taxes on the industry.

Vulnerability to potential new taxes is generally prevalent; the industry found it more advantageous to use the average earnings basis of figuring excess profits tax exemptions for 1940, and the proposed restriction of the tax to the invested capital base, if carried out (which is open to question) would cut earnings substantially. Outlook on the whole for this industry is for somewhat smaller dividends this year than in 1940.



Cushing Photo

Why Selective Rail Bonds Should Advance

The Background Factors and a Recommended List

BY J. S. WILLIAMS

After having been relegated to the proverbial investment "doghouse" for a considerable period of time, railroad bonds are again coming in for increasing attention from both those seeking income return and individuals mainly interested in speculative price appreciation. The basic reason for this apparent change of heart is, of course, to be found in the steadily mounting level of freight car loadings and the realization that as the rearmament program gets into full swing, probably late in 1941, the rail facilities of the country will be called upon to handle even greater traffic volumes.

There is another excellent reason why selected second grade rail bonds should come in for increasing market attention and that is their favorable tax position as against common stocks. This is due to the fact that Federal taxes, both normal and excess profits, are figured after all fixed charges, including bond interest, so that the full burden of such levies must be borne by the stockholders. During a period such as the present when all indications point to higher rather than lower taxes to finance our defense efforts, there is little wonder that investors are searching for a haven less vulnerable to the impact of taxes than stocks and yet one which still offers a current rate of return comparing most favorably with most junior industrial equities. In this connection it is significant that whereas the averages for industrial stocks have shown a rather persistent though moderate decline since early in January, selected second-grade rail bonds have been moving up with new highs being recorded in several instances.

Now the big question is will this indicated improvement in gross find reflection in better coverage for fixed charges, or will costs of operations so increase as to offset any benefits which normally could be expected to accrue in the position of second grade and even defaulted railroad bonds. This is not an easy question to answer since it is obviously impossible to fortell accurately what increases may be brought about under a war economy in such important railroad cost items as labor, materials and fuel. We do know, however, that despite continued extensive modernization and improvement programs during last year, the railroads of the country as a group enjoyed the highest earnings since 1936 with estimates placing net at about $140,000,000. That would compare with $93,181,535 in 1939 and $164,630,040 in 1936, the latter having been the best showing since 1930 when net amounted to $523,946,751.

It is of especial significance in consideration of the recent showing to realize that wage rates today are at the highest level in the history of railroading, while at the same time both passenger and freight rates are materially lower than at any other period of comparable general business activity. This rate situation accounts in large measure for the failure of last year's showing to have bettered all other depression years since gross exceeded that of 1936 and was at the highest level since 1930.

Selected Railroad Bonds for Income and Price Appreciation

Issue	Recent Price	Current Yield %
Balt. & Ohio 1'st 4's 1948	70	5.7
Balt. & Ohio, P. L. E. & W. Va. 4's 1951	60	6.67
Erie 1'st prior 4's 1996	83	*
Erie & Jersey 1'st 6's 1995	85	†
Reading Co. Gen. & Ref. 4½'s 1997	81	5.5
Pere Marquette 1'st 4½'s 1980	70	6.4
New York Central Ref. & Imp. 5's 2013	66	7.5
Southern Pacific 4½'s 1981	45	10.00
Central Pacific Gtd. 5's 1960	50	10.00
Northern Pacific Ref. & Imp. 6's 2047	68	8.8
Northern Pacific Prior Lien 4's 1997	73	5.5
Southern Railway Gen. 6's 1956	78	7.6
Kansas City Southern Ref. & Imp. 5's 1950	71	7.4
Cleveland Union Term. 5's 1973	78	6.4

* Recently paid $22 account interest due on new bonds to be received in reorganization.

† Recently paid $23 account interest due on new bonds to be received in reorganization.

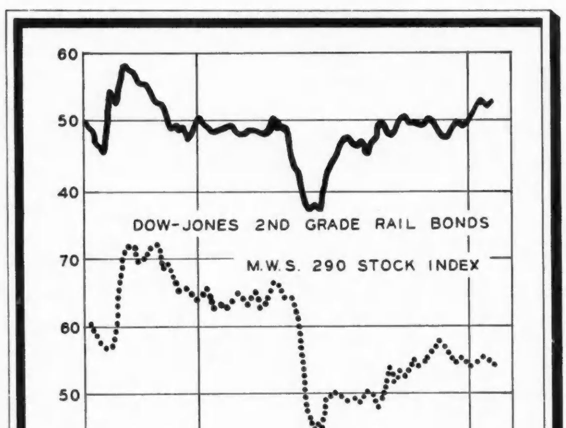
With higher labor and other costs on the one hand and lower returns from service rendered on the other, the railroads' position has not been an enviable one, especially in the face of the rising competition for business with which they have been faced. Much has been written about the latter and as yet little has been done to solve this pressing problem, although there is some basis for belief that the recently enacted Wheeler-Lea Transportation Bill will eventually lead to a sound solution through the elimination of uneconomic subsidies in the transportation field.

Right here, however, it might be well to point out the progress made by the railroads themselves in meeting competition and at the same time reestablishing their business on a profitable basis. In this connection, much has been accomplished in the passenger field throu adoption of the new streamlined equipment whereby comfort and high speed transportation at the lowest cost in history have done much to attract traffic back to the rails and the record of most of these new trains has also been enlightening from the standpoint of profits. Not only has average speed in passenger trains been greatly increased over the past decade, but speed is now being stressed in freight movement itself with considerable volume of high classification traffic coming back to the rails through a combination of motors trucks and "hot-shot" freight trains now operating jointly in many sections of the country. That much progress has been made in recent years in the capacity of our railroads to handle an increasing volume of freight at high speed and maximum efficiency is hardly to be doubted and it is largely this increased efficiency that has allowed the rails to do as well as they have.

The capacity of freight trains has been increased, while the cost of handling has been reduced through more economical modern motive power. Anticipating the sharp improvement in traffic now apparent under stimulus of our rearmament efforts, the rebuilding and modernization program of the railroads was greatly speeded up last year. These outlays naturally have tended further to retard gains in net, although from the bondholder's standpoint, at least, such expenditures are all for the good since they spell a further reduction in operating costs and a consequent widening of the margin, if any, over fixed charges including bond interest.

Needless to say all roads will not be equally benefited from our rearmament economy, although increasing public purchasing power may be expected to find some reflection in traffic even of those roads serving predominantly agricultural sections. Generally speaking, however, the typically industrial carriers are the ones likely to enjoy the most pronounced gains since the bulk of defense expenditures will be concentrated in such regions. Among such situations are the Pere Marquette, New York Central, Baltimore and Ohio, Reading and the Erie, to cite but a few of the roads having bonds outstanding of the type under consideration. Of these industrial carriers, the Baltimore and Ohio and the Erie have had to effect rather drastic readjustments in outstanding bond issues with the interest payments on the B. & O. junior issues largely contingent on earnings and the approved ICC reorganization plan for Erie calling for a considerable scale down. While such bonds have recently demonstrated considerable in the way of speculative appreciation and further market progress would not be unexpected in the current setting, we feel that the investor will do well to stick to the senior obligations of these roads.

In the table accompanying this discussion we have accordingly listed only two of the underliers of the Baltimore and Ohio system; i.e., the First 4's of 1948 and the Pittsburgh, Lake Erie and West Virginia Ref. Ext. 4's of 1951. Full interest service has been maintained on both of these issues and in view of their senior lien position together with the improved earnings position of the property they should work out well for the more conservatively minded rail bond buyer who is interested mainly in a better-than-average return considering the underlying position of the bonds. Gross revenues of the B. & O. for 1940 are indicated at the highest level in a decade with fixed charges on the revised capitalization estimated to have been covered around 1.75 times. Cash position has already been greatly improved and while there are heavy RFC and secured note maturities in 1944, they should present no insurmountable problem



unless there is a basic change in the earnings trend.

Recent pronounced strength in the various obligations of the Erie Railroad reflects the indicated early completion of the road's I C C capital readjustment plan. This provides for a rather sharp reduction of fixed charges through an exchange of securities whereby the present outstanding general lien bonds will receive only $250 in new first-mortgage bonds for each $1,000 now held; the Ref. & Impr. issues will receive $75 in new firsts, the balance in both instances being made use of contingent interest bonds and stock. In our table, therefore, we have limited our suggestions in the case of this road also to two of the underliers which will not be subjected to any scale-down. As a matter of fact the tabulated 1st Cons. Prior lien 4's of 1996 will receive for each $1,000 bond now outstanding, $1,100 in the new first mortgage 4's due in 1995, while the Erie & Jersey 1st 6's of 1955 will receive $1,150 in new 1st 4's. Payment of $22 and $23, respectively, per $1,000 bond was authorized by the Federal Court last December representing six months' interest to December 31, 1940, due on the new bonds to be issued in reorganization for the subject currently outstanding issues.

Fairchild Aerial Surveys

One of the largest freight terminals in the east at Jersey City.

Industrial Carriers Favored

In the case of the Reading Co. General & Refunding $4\frac{1}{2}$'s of 1997, these bonds represent the obligation of a road covering some 1,456 miles in the highly industrialized states of Pennsylvania and New Jersey including the important steel producing centers of Allentown and Bethlehem. Principal terminal is in Philadelphia but access to the New York harbor area is afforded through the controlled "Jersey Central." The company's record of earnings has been better than average with fixed charges having been covered by ample margins throughout the depression years. Anthracite is the largest single traffic item but this is importantly supplemented by bituminous and numerous iron and steel products. Miscellaneous manufacturers are naturally also important. Traffic last year ran well above the previous year's level with fixed charges estimated to have been covered 1.70 times, despite sharp increases in maintenance outlays. Equipment is being steadily supplemented in order that the anticipated further increase in traffic volume may be satisfactorily handled. Cash position has been greatly strengthened as a result of the traffic upturn over the past year, having increased to $10,532,971 on November 30, 1940, as compared with $6,665,545 a year before. The only important near-term maturity is the $8,498,000 Philadelphia & Reading Terminal 5% bonds falling due on May 1, 1941, but in view of their excellent security no difficulty is expected on that score.

The Pere Marquette 1st $4\frac{1}{2}$'s of 1980 also included in the tabulation of promising rail bond issues accompanying this discussion have been subject marketwise to wider fluctuations in earnings than in the case of the Reading bonds. Nevertheless, present traffic and earnings outlook together with the road's strengthened financial status suggests that the issue's market position currently is decidedly favorable. Serving the highly industrialized lower Michigan peninsula including Detroit, Lansing, Grand Rapids, Saginaw and Flint, the road has experienced a sharp improvement in loadings and earnings over the past year resulting largely from the upturn in the automobile industry. This road is faced with no early bond maturities, and the importance of the territory served to the defense program suggests a rising margin of protection for bond interest over the months ahead. For the 52 weeks ended December 28, 1940, Revenue Freight Cars Handled increased 9.8% over the previous year and despite higher maintenance and equipment outlays fixed charges for the year are estimated to have been earned around 1.40 times which would compare with an actual coverage of 1.10 times in 1939.

This brings us down to the New York Central Ref. & Imp. "A" $4\frac{1}{2}$'s of 2013, which, despite some recent market progress, still afford a current income return of 7.2% based on a price of around 62. Freight revenues of this highly industrialized rail system recovered rapidly last year and, despite increased outlays, net is indicated at the highest level since 1930. The relatively heavy debt of the system suggests that the bonds will continue in the speculative category for some time ahead but the earnings margin above fixed charges seems likely to be considerably increased during 1941. Estimates for last year show a coverage of 1.25 times which would compare with 1.09 times in 1939. New York Central's connections with important industrial centers in the midwest and its lines to the Atlantic seaboard and Canada leave little room for doubt as to the benefits likely to accrue under both Britain's and our own arms efforts. The addition of sizable numbers of freight cars, (*Please turn to page 554*)

For Profit and Income

Expanding Capacity

In connection with its proposed $100,000,000 new financing, **Republic Steel** tells how its productive capacity has grown since 1935. Ingot capacity was then 6,779,000 tons and is now 7,888,000 tons; pig iron capacity was 3,954,000 tons and is now 4,830,000 tons. These figures, incidentally, compare favorably with total output of some of the smaller industrial nations.

Now under construction is a 54-inch cold strip mill capable of turning out a quarter of a million tons a year, and additional electric furnaces being installed will raise potential output in that division from 388,000 tons annually to 500,000.

All told, the company spent $76,800,000 in the five-year period on new construction, modernization and improvements, outside of properties bought. Republic has been able to show the best earnings figures in comparison with 1937 of all the major steel companies. Leverage in the capital structure is very high, making for wide variations in per share profits on the common stock.

Pools of Idle Cash

Talk of investment trusts buying British assets in this country has died down, although it is understood the dickering still continues in some cases. One highly pertinent question, of course, is the amount of cash the trusts are holding. That would determine a few of the variables in such transactions, if consummated —whether or not bank capital would enter the picture, whether the Government would have a stake, and how long the trusts would hold their new acquisitions.

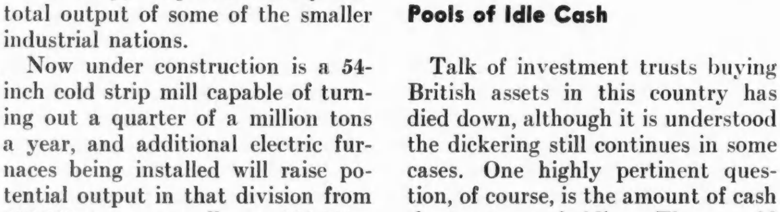
In most trusts, cash tended to form a somewhat larger proportion of total assets at the end of 1940 than at the end of 1939. It was still not out of line with normal practice, though, and the changes made during the last quarter did not indicate any unanimous inclination to get ready money on hand in large amounts.

In fact, the most likely explanation for greater cash holdings at the end of 1940 than a year earlier is the contrast in market action. Trusts are reluctant to be left out of an advancing market, just like any other investor. In December, 1939, they were being given more practical encouragement by the price trend than in December, 1940. For some months now their principal operations have been switching —and not any great volume of that.

Foreign Copper

It seems a foregone conclusion that the Metals Reserve Co., a Government agency, will buy more copper from South America. Companies like **Phelps Dodge** with large American production and no stake in the South American mines have long been more highly regarded because of their favored position. Particularly when fears of discrimination in taxes or outright expropriation were rife, the weaker American mines were frequently considered preferable to the strong foreign and domestic producers.

Kennecott and **Anaconda**, though,



Wide World Photo

Turning and boring the outer shaft of an Allison engine in one operation. at the Allison Division of General Motors.

have been doing a good volume of business over-all and compiling some very satisfactory profits. If prices were taking the course they did in the last war, these companies would be coining money. The Government's purchases are understood to be at 10 cents a pound for the foreign metal, which is sharply lower than the market in 1937, but because of lower costs outside the United States the relative profit margins are not bad.

Dow Theory

The low in the Dow-Jones industrials set last June was 111.84, and that in the rails set in May was 22.14. From those points the intermediate upswing carried to tops of 138.12 and 30.29. The reaction from that advance has already carried past the one-third mark considered the normal minimum in the industrials. Theoretically, limits of one-third and two-thirds for the reaction would stop the industrials between 120.60 and 129.36, and the rails between 24.86 and 27.57.

Provided there is no penetration of last year's lows before, a rally which carried above 138.12 and 30.29 would be the signal of a major bull market. Should prices break through the old lows, the significance would be merely as confirmation of a bear market trend.

Dow Theory has been having its troubles for the last couple of years. Even perfect skill or luck in its interpretation has not meant any great success in market operations. The so-called major trends have not been lasting long enough or going far enough to create opportunities to ride along to a distant reversal. Three years ago the averages were within a couple of points of where they are today. Meanwhile Dow Theory has called the changes from bear market to bull, and back to bear again, at levels which have failed to take advantage of the few sharp swings that have intervened.

U. S. Steel Report

The fourth quarter statement of **U. S. Steel** apparently disappointed the Street, although this was probably coincidence. No one had taken too seriously the earnings estimates floating around, because it was expected that the quarter would have to bear the brunt of some unusual charges. As it happened, almost $7,000,000 was lopped off profits shown and devoted to pension payments. Weakness in the steels at the time of the report, which showed $3.04 earned per share as compared with $3.07 in the third quarter, was due to discouragement over the war outlook.

Chairman Olds had some interesting remarks on the question of capacity. "The current capacity of the steel industry," he declared, "is more than 84,000,000 net tons of steel ingots. According to what we know about 20,000,000 net tons should take care of the national defense needs and exports. This leaves 64,000,000 net tons for orders from domestic consumers, or more than all the ingots produced in 1929, and only a little under the total output last year. This seems to us as if there is enough steel to go around. About 2,500,000 additional net tons will be available late this year or early in 1942 as a result of expansion plans announced by various steel companies.

"I do not see any bottlenecks, and if there are any they would probably be temporary. For that reason I do not think priorities are necessary at this time. It may be that we will need some priority action in the future, but this would be merely to make for orderly conditions in the industry."

Although Federal income tax for the year amounted to $26,175,000, depreciation and depletion were only $10,000,000 higher than in 1939, at $71,168,471. U. S. Steel does not vary its charges of this nature as widely as some other industrial enterprises.

Trends of Taxes and Earnings

Company	Fourth Quarter 1940	Fourth Quarter 1939	Full Year 1940	Full Year 1939	Net Income (Total) 1940	Taxes 1940	Taxes 1939
U. S. Steel	$3.04	$2.50	$8.84	$1.83	$102,181,321	$85,294,204	$54,042,086
Mathieson Alkali Works	*0.36	*0.51	1.72	1.12	1,587,812	529,628	190,309
General Ry. Signal	*0.46	*0.37	1.21	0.34	526,761	117,477	56,154
Inland Steel	2.80	2.81	8.87	6.73	14,450,385	6,352,541	2,551,680
Reading Co	*1.19	*1.03	2.59	1.37	6,427,000	5,540,000	4,481,000
Southern Ry.	*3.40	*3.19	3.35	2.69	7,352,072	8,391,483	7,886,854
Pacific Lighting	.....	.....	3.13	3.60	6,033,082	7,702,252	7,297,434
Comm. & Southern	.....	.....	0.12	0.13	13,048,510	24,467,787	19,735,110
Amer. Steel Foundries	*0.73	*0.99	2.48	1.15	2,943,534	986,055	332,946
Industrial Rayon	*0.88	*1.03	3.15	1.78	2,392,477	563,023	271,622
Warner & Swasey	.....	.....	4.19	2.32	3,371,283	3,735,000	436,550
Rustless Iron & Steel	*0.46	*0.47	1.28	1.13	1,280,799	1,285,000	271,000
Bliss & Laughlin	*0.73	*1.05	2.64	2.49	712,030	414,931	160,979
Bethlehem Steel	4.32	3.74	14.04	5.75	48,677,524	41,345,349	21,191,492
Hercules Powder Co	*1.47	*1.18	4.01	3.65	5,807,770	4,373,549	1,339,722
Kress (S. H.) & Co	.....	.....	2.09	1.93	5,339,160	1,716,000	915,000
Lone Star Cement	1.19	1.12	3.55	3.69	3,436,284	1,626,868	1,033,796
Pittsburgh Coke & Iron	*0.34	*0.43	1.14	0.70	1,000,624	304,260	66,940
Liggett & Myers Tob Co	.....	.....	6.02	6.13	20,339,241	6,797,277	3,988,697
Detroit Edison	.....	.....	8.44	7.58	10,732,734	10,570,687	8,670,998

*—Fourth quarter earnings not reported; this figure is a rough approximation obtained by subtracting 9 mos. earnings from full year earnings.

Construction Boom

Large scale building contractors, such as Thompson-Starrett Company, have had lean going ever since 1929, but when it comes to hanging on while waiting for renewed opportunity the absence of large fixed investment in plant is a great advantage. Today renewed opportunity is here, thanks to the record-breaking boom in heavy construction awards. For the fiscal year ending in April Thompson-Starrett will probably better the modest profit earned in the last fiscal year. For the six months period ended October 31 this company earned 20 cents a share on its common against loss of 30 cents for the corresponding period of 1939. An incorrect statement in our issue of January 11 presented these interim figures in reverse.

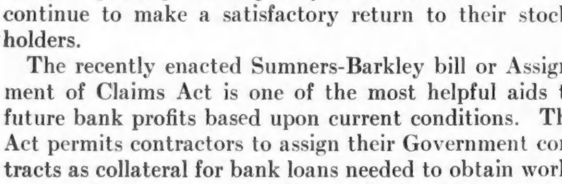
The Bank Stocks

Four Pros — One Con

BY GEORGE MERTON

UNDER more normal circumstances, a sharp revival in industrial activity would long since have resulted in a strong increase in demand for bank loans and additional credit services, although up to now the major affect on the large banks has been to place them in a position to satisfy industry's needs when such assistance is required. As a whole, the banks of this country are in the best condition—generally speaking—of any time in the more recent past. With most of the poorly founded banks eliminated from the scene during the bank holiday of 1933 and the remainder safeguarded by deposit insurance and increasingly high compulsory reserves, they are ready to participate completely in defense measures and continue to make a satisfactory return to their stockholders.

The recently enacted Sumners-Barkley bill or Assignment of Claims Act is one of the most helpful aids to future bank profits based upon current conditions. The Act permits contractors to assign their Government contracts as collateral for bank loans needed to obtain working capital for their completion. Right at this moment, there is one drawback in the strict interpretation of the Act and that is that no provision has been made to permit sub-contractors to borrow on the same terms. Since most Government contracts are now being completed through sub-letting parts of the order by the major corporation, the smaller sub-contractor is often pressed to obtain adequate funds to carry out his part of the agreement. While the large contractor is most often in a strong financial position, his bank credit is sufficient to obtain the sums required without any such collateral at the same time the small contractor often lacks credit to obtain funds in excess of his usual requirements. Amendments to the Sumners-Barkley bill are already in preparation and when enacted will permit the sub-contractor to borrow on his share of the larger order. This will not only speed up defense production but will also make available to the banks a substantially expanded field of potential borrowers who heretofore may not have been able to qualify for loans.

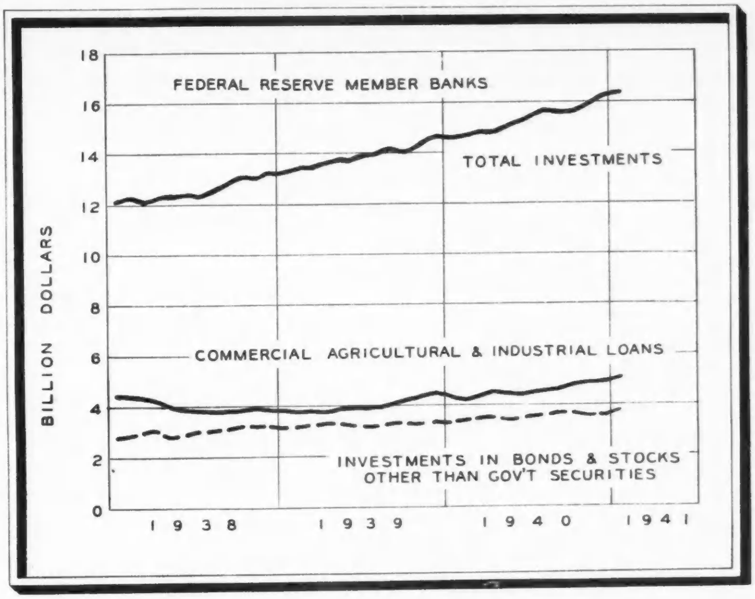


The number of banks of all sizes now in operation is said to be in excess of 15,000 even after the intense mortality of the 1933 banking debacle. Of this vast number, only about 50 are of national importance and of these the largest are located mostly in the New York area. The large banks enter into every phase of the banking business and for the purpose of collective study statistics applying to this group offer the most illuminating exhibits.

As a case in point, year end 1940 bank reports show that 15 of the largest New York City banks have total earning assets aggregating some $10,680,000,000 compared with about $9,200,700,000 at the close of 1939 and $8,259,013,000 at the end of 1938. The 1940 figures constitute an all time high record. In other words, these banks now have at their command record sums available for loans, security purchases or whatever methods may be found for their employment to the profit of the bank and its shareholders.

Of these 15 banks, 12 are probably the best known and the most active in exploring every possible field for profitable investment of their total earnings assets. These 12 banks showed the extremely high total of combined resources amounting to approximately $17,600,000,000 at the end of last year which represented a gain of about 20 per cent or $2,900,000,000 over a year ago. Of the total resources, some 43 per cent was cash in or due to the banks, approximately 31 per cent in Government securities, 7 per cent in other eligible securities and about 17 per cent in loans, discounts, etc., while only 2 per cent was in real estate, banking premises and other bonds

and mortgages. It will be remembered that heavy overextension in real estate mortgages and similar collateral contributed substantially to the difficulties of the "bank holiday" period.



Cash items were 20 per cent higher than a year ago while investments in Federal obligations rose approximately 25 per cent during 1940. Loans were the only laggards in the rather general increase of bank activities. Nevertheless, some upward progress was made in commercial loans which were approximately 14 per cent higher than a year ago and the greatest progress was made in the latter months of the year. Very quiet security markets account for a large part of the slow progress of loans for in the New York area brokers' loans are approximately 54 per cent lower than a year ago, although in other important financial centers even security loans are modestly higher than a year ago.

We have seen that the banks, as represented by the most prominent New York institutions, are in an exceptionally strong cash position. We have also seen that loans are showing a tendency to rise and are likely to go higher as time goes on. The strong cash position is doubly important under such conditions for it means that the expansion of loans may be made without any sacrifice of Government bond holdings or similar investments and therefore any expansion in loans would not entail the loss of any income from other sources and would thus increase earnings almost wholly by the interest obtained from such accommodations.

Increased Business Inexpensive

Banks are unique in industry since they are able to increase the volume of the business handled with very little additional expense and—which is most important—with no additional capital investment in plant and inventory. The greatest cost of a bank in doing business is salaries and wages. Approximately 43 per cent of the banks' gross expense is in this category and the trend is gradually rising as is the case in practically every major industry. While salaries and wages are on the increase, the gain is but moderate and is offset by the fact that the banks have virtually no labor problems and existing forces can handle a substantially larger volume of business without undue strain on the system. Formerly, interest on time and demand deposits accounted for more than 30 per cent of the banks' annual outlay but despite the fact that deposits—both time and demand—are close to an all time high level, interest charges on time deposits now require only about 19 per cent of gross outlays while interest on demand deposits is no longer in effect. The tax bill of the banks is the next largest item of expense after salaries, formerly taking approximately 29 per cent of the total but now demanding a somewhat greater share. But even in the problem of taxation, the banks have a considerably better position than many other industries.

With approximately 31 per cent of their total resources in U. S. Government bonds and a sizable part of the remaining 7 per cent of a total of about 38 per cent in all security investments in state and municipal obligations, a large part of the 12 leading New York Banks' income is in tax exempt securities upon which no taxes are payable. While it is possible that recently enacted tax measures may take as much as 60 per cent of some corporations' net income the largest amount likely to be taken from the New York bank group is slightly less than 5 per cent. Excess profits taxes are also relatively remote for practically all banks since non-taxable income bulks so relatively large in almost every instance and other profits continue to be comparatively small.

The proportion of working assets over and above legal reserves for the protection of deposits determines the amount available for earning while the prevailing interest rates limits the amount which may be earned on the excess of reserves. During 1940, excess reserves of all Federal Reserve members reached an unprecedented total of $7,000,000,000 and while the year-end saw a decline in them to approximately $6,500,000,000 it is expected that they will soon again reach and surpass the peak levels. There has been some talk of making another increase in the required reserves but since a similar action in the past had highly undesirable repercussions, it is not likely soon to be attempted again. Interest rates are likely to stay within relatively narrow bounds for the present, at least, since the Government must do considerable deficit financing over the next several years and it is therefore to its own interest to hold the cost of hiring money down as much as possible. Over the longer term, however, the increasing demand for credit is likely to cause a firming of commercial and industrial rates with a consequent further improvement in earning power for the banks.

That the banks now have such a large part of their resources in Government bonds holds no particular long term significance. Heavy cash surpluses make an immediate sale of Government holdings unnecessary to meet increasing demands for commercial and industrial loans and there is not likely *(Please turn to page 560)*

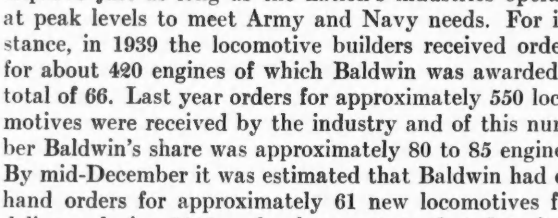
For Baldwin Locomotive It's a Boom—*and How!*

Flood of Orders Assures Volume Production for Several Years

BY J. C. CLIFFORD

In times of peace, Baldwin Locomotive Works is most important as one of the larger of the country's manufacturers of railroad equipment, mostly tractive power. But when war threatens, Baldwin's peaceful accomplishments fade into relative unimportance while the company and its affiliates' ability to produce armament and kindred materials becomes the major source of income.

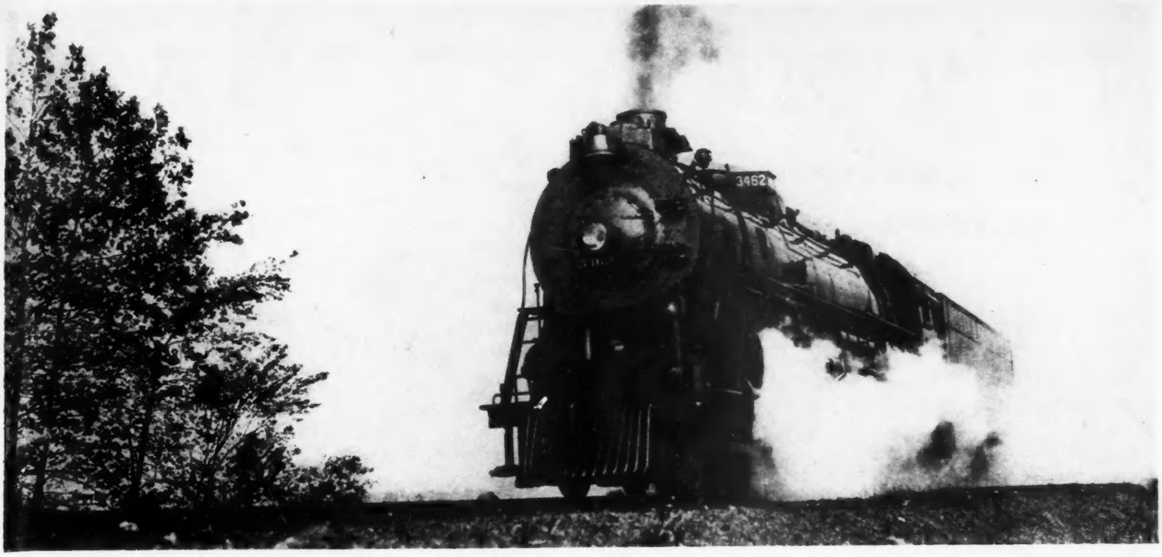
Although the armament side of Baldwin's business assumes a position of prominence under present circumstances and conditions, the railroad equipment business is also doing better than average and should continue to improve just as long as the nation's industries operate at peak levels to meet Army and Navy needs. For instance, in 1939 the locomotive builders received orders for about 420 engines of which Baldwin was awarded a total of 66. Last year orders for approximately 550 locomotives were received by the industry and of this number Baldwin's share was approximately 80 to 85 engines. By mid-December it was estimated that Baldwin had on hand orders for approximately 61 new locomotives for delivery during 1941 and subsequent to that date it is understood that some additional orders have been received. Based upon last year's regular locomotive business, therefore, Baldwin might have been expected to make a modest but very satisfactory showing even if other—and now much more important—activities had not been going ahead at full tilt.



In times of war or preparations for war, Baldwin's ownership of nearly 62 per cent of Midvale Company throws the accent upon armament; for Midvale Company is one of the country's largest manufacturers of armament and kindred materials. Normally, Midvale Company operates profitably as a manufacturer of railroad equipment such as steel tires and wheels as well as various forgings, castings, steel rolls and many other articles of industrial importance. In war times these same facilities are quickly adapted to the manufacture of guns, gun forgings, projectiles and armor plate. Needless to say, this change-over ability has been strongly capitalized and Midvale is operating at peak capacity on just such business. Of necessity, all of the armament orders received by Midvale are not publicly announced but up to the beginning of last December, the company was indicated to have received nearly $16,000,000 in Government orders plus additional—but undisclosed—business.

Midvale normally operates at a substantial profit even on peace time schedules. In fact, during the past 15 years or more the company experienced only one annual deficit after charging off the usual $460,000 yearly for depreciation. The year in which the loss was reported was 1932 but even then the company made an operating profit of better than $214,000 before depreciation. Last year is believed to have been highly profitable for Midvale. For the 12 months ended September 30, 1940, the company reported a profit equivalent to $11.88 a share of common stock as compared with $8.35 in the same period of the previous year. Since some further adjustments were probably made for taxes during the last 3 months of the year, it is not likely that full year 1940 results exceeded those of the period just mentioned by a substantial margin but even so, earnings for Midvale not only reached a new high record but also contributed substantially to Baldwin's income and equity.

The actual contribution to Baldwin's income was slightly more than $1,007,000 which was a dividend of $9 a share on the 122,900 shares of Midvale owned by



Baldwin. Approximately $300,000 more was available to Baldwin and could be shown as undistributed equity in subsidiary companies' earnings. From all indications, Midvale has not as yet reached the peak of its productivity for a new $350,000 armor plate plant is now in the process of construction. Earnings, however, may not expand as rapidly in the future as will the company's ability to produce but if they are maintained at present levels for the duration of the emergency, Baldwin Locomotive Co. will find no cause to complain.

While Midvale is undoubtedly the most important of Baldwin's subsidiaries, other owned or controlled companies contribute to Baldwin's income in a proportionate degree while at the same time providing Baldwin with an ever expanding diversity of products. Among this group is the approximately 92 per cent owned Whitcomb Locomotive Co., the Baldwin Southwark Corp., the Pelton Water Wheel Co., the Cramp Brass & Iron Foundries Co. and other smaller companies. While not controlling General Steel Castings Corp., an active producer of larger steel and iron castings for locomotives and large machines, Baldwin holds approximately 22 per cent of the company's capital stock while American Locomotive, Pullman and American Steel Foundries also have substantial interests in the company.

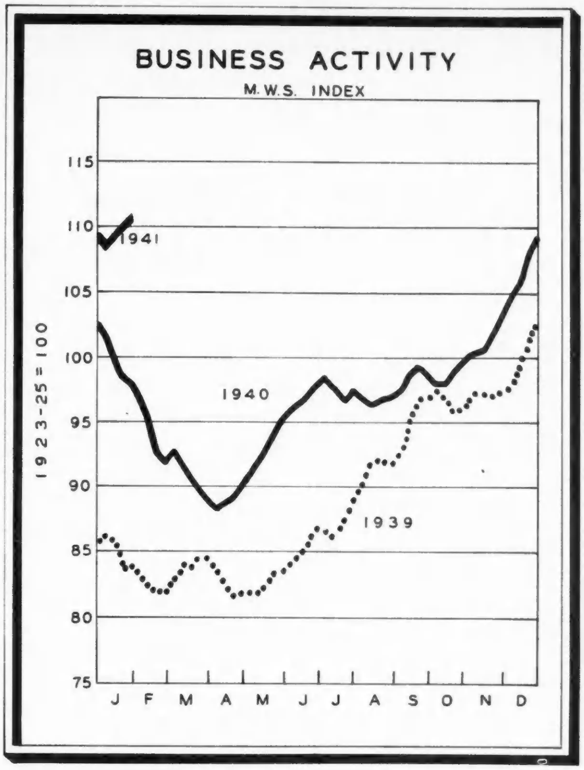
All Orders Increasing

Whitcomb Locomotive Co. manufactures industrial locomotives operated by Diesel engines, electricity or a combination of both. The Whitcomb locomotives are mostly built in cooperation with Westinghouse Electric and are in increasingly good demand. The number of locomotives ordered in 1940 is not as yet available but in 1939 orders for 35 were received and in 1937 reached a post-depression high of 79. It is probable that if the 1937 record has not already been exceeded, it will be in 1941.

The Baldwin-Southwark Corp. was formerly an active wholly owned subsidiary of Baldwin but since January, 1940, most of its operations and holdings have been taken over by the parent company. The Division makes powder presses, stamping presses and shell forging machines. The company has exclusive American rights to the latter machine which is also adaptable to other high-speed forging jobs. The principal assets which remain to Baldwin-Southwark are two large real estate holdings in Philadelphia which have a value substantially in excess of the figures at which they are carried on Baldwin's books. Together with those of Midvale Co., the munitions production facilities of Baldwin-Southwark's former plants comprise the greatest part of Baldwin's part of the armament business.

Pelton Water Wheel Co. manufactures hydraulic turbines, pumps, valves, hydro-electric equipment as well as valves and other items for water works, pumping stations, etc. The company also does special machine work and makes various sizes of small water motors. It is 100 per cent owned by Baldwin and accordingly makes no separate earnings reports. Standard Steel Works Co., another of Baldwin's 100 per cent owned subsidiaries, makes high grade machine parts finished to any stage required. These products are used mostly by manufacturers of railroad engines and rolling stock as well as by builders of steamships and their equipment. Cramp Brass & Iron Foundries, also 100 per cent owned by Baldwin, makes special alloy compositions for Diesels, nickel castings, manganese bronze and special castings all usable in the manufacture of armaments as well as commercial products. The plant is an integral part of Baldwin's Eddystone, Pa., shops where it furnishes the parent company with a large part of its special metal requirements.

Although the published reports show Baldwin—and Midvale—received only about $59,000,000 of Government business since July, 1940, the company's report for the first 11 months of last year indicated that consolidated orders from all sources amounted to $157,,022,063 as compared with $63,118,558 in the same months of 1939. During the period, shipments valued at $47,246,388 were made of which $5,213,155 was in November as compared with $4,666,361 in October and $3,731,746 in November, 1939. At the beginning of December, unfilled orders totaled $153,474,856 which was far and away the best backlog of the decade and for many years prior to that time. Shipments for the 11 months were also at new record highs for the post-depression period and during the previous 10 years were *(Please turn to page 558)*



CONCLUSIONS

INDUSTRY—Expansion continues.

TRADE—Department store sales 12% above last year.

COMMODITIES—Trend moderately lower, apparently in sympathy with the stock market.

MONEY AND CREDIT—Business loans rise to three-year high in New York. Excess reserves decline.

The Business Analyst

Despite sharp declines in production of lumber and bituminous coal during the past fortnight, **Business Activity** has risen since our last issue to a new all-time high record and, even on a per capita basis, is now within less than 3% of the 1929 peak. With millions still, unemployed and plants operating far below forced capacity, there is room for considerable further expansion without serious **price advances,** provided the business world continues to cooperate with the Government in sincere effort to hold prices down. Defense Commissioner Leon Henderson points out that unwarranted price advances would increase the cost of rearmament, introduce a large element of uncertainty into manufacturing and add to the difficulities of readjustment when the emergency is over.

* * *

According to the Bureau of Labor Statistics, out of 154 plants now working on defense orders only 13 are operating seven days a week and 72 are still on a one-shift basis. Of course the survey covered only a small sample; but is supposedly representative of the entire field of defense production. The National Industrial Conference Board, whose estimates are shown by the 1940 Census to be not far afield, places **unemployment** in November at 7,217,000.

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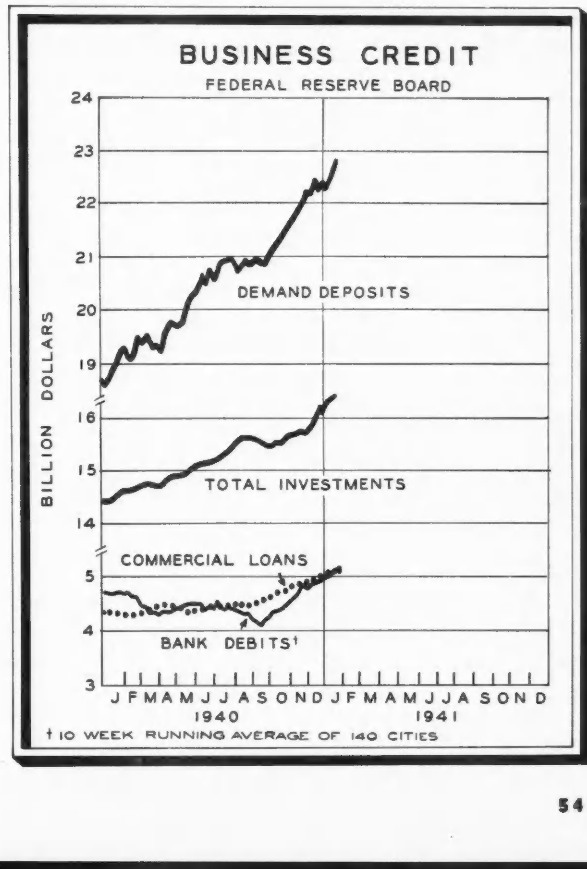


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Dec.	136(pl)	132	126
INDEX OF PRODUCTION AND TRADE (b)	Dec.	102	99	95
Production	Dec.	104	101	95
Durable Goods	Dec.	102	98	90
Non-durable Goods	Dec.	105	103	99
Primary Distribution	Dec.	94	92	92
Distribution to Consumers	Dec.	102	101	98r
Miscellaneous Services	Dec.	95	93	89
WHOLESALE PRICES (h)	Dec.	79.7	79.3	79.2
INVENTORIES (n. i. c. b.)				
Inventories	Dec.	125.5	124.3r	110.7
New Orders	Dec.	212	210r	121
Shipments	Dec.	158	150	129
COST OF LIVING (d)				
All items	Dec.	85.8	85.5	85.3
Food	Dec.	78.2	77.2	78.5
Housing	Dec.	87.5	87.5	86.6
Clothing	Dec.	73.0	73.1	72.9
Fuel and Light	Dec.	86.5	86.3	85.6
Sundries	Dec.	98.1	98.1	96.8
Purchasing value of dollar	Dec.	116.6	117.0	117.2
NATIONAL INCOME (cm)†	1st 11 mos.	$66,897	......	$63,196
CASH FARM INCOME				
Farm Marketing	Dec.	867	863r	710
Including Gov't Payments	Dec.	837	942r	801
Total, First 12 Months	Dec.	9,094	......	8,518
Prices Received by Farmers (ee)	Dec. 31	101	99	96
Prices Paid by Farmers (ee)	Dec.	122	122	122
Ratio: Prices Received to Prices Paid (ee)	Dec.	83	81	79
FACTORY EMPLOYMENT (f)				
Durable Goods	Nov.	112.4	109.9	98.3
Non-durable goods	Nov.	109.1	110.2	109.2
FACTORY PAYROLLS (f)	Dec.	122.8	114.7r	103.9
RETAIL TRADE				
Department Store Sales (f)	Dec.	101	100r	95
Chain Store Sales (g)	Dec.	128	124	120
Variety Store Sales (g)	Dec.	140	132	130
Rural Retail Sales (j)	Dec.	137.9	122.0	122.7
Retail Prices (s) as of	Dec.	96.2	95.0	94.9
FOREIGN TRADE				
Merchandise Exports†	Nov.	$328	$343	$292
Cumulative year's total† to	Nov.	3,703	......	2,809
Merchandise Imports†	Nov.	223	207	235
Cumulative year's total† to	Nov.	2,372	......	2,071
RAILROAD EARNINGS				
Total Operating Revenues★	1st 10 mos.	$3,539,445	......	$3,281,797
Total Operating Expenditures★	1st 10 mos.	2,563,885	......	2,413,033
Taxes★	1st 10 mos.	340,660	......	300,952
Net Rwy. Operating Income★	1st 10 mos.	527,102	......	457,433
Operating Ratio %	1st 10 mos.	72.44	......	73.53
Rate of Return %	1st 10 mos.	2.38	......	2.07
BUILDING Contract Awards (k)	Dec.	$456	$380	$354
F. H. A. Mortgages				
Selected for Appraisal†	Dec.	77.7	83.8	67.1
Accepted for Insurance†	Dec.	56.9	......	53.2
Premium Paying†	Dec.	77.5	......	64.8
Building Permits (c)				
214 Cities†	Dec.	$ 99	$82	63
New York City†	Dec.	15	20	13
Total, U. S.†	Dec.	114	103	77
Engineering Contracts (En)†	Dec.	$399	$383	$190

PRESENT POSITION AND OUTLOOK

(Continued from page 543)

With so much slack remaining to be taken up it is scarcely surprising that, since the outbreak of war in early September, 1939, the **cost of living** has advanced only 2%, and **wholesale prices** 6%; despite increase of 28% in bank deposits, 28% in **industrial activity** (F. R. B. index) and 15% in **factory employment** (seasonally adjusted index).

* * *

New capital raised through flotation of securities last year—corporate, Federal and other public—came to $4,290 billions, compared with $3,879 billions in 1939. Of these totals, corporate issues accounted for $724 millions last year, against only $383 millions in 1939. Loans extended by commercial banks expanded about $1,110 millions last year, bringing the total known increase in supply of new capital up to at least $1.5 billions, without allowance for the indeterminate, but undoubtedly considerable amount furnished from corporate working capital.

* * *

Farm income last year totaled $9,094 millions, against $8,518 millions in 1939—including Government subsidies of $766 millions in 1940 and $807 millions in 1939. Census returns for 1939 place the value of Manufactures at $56.8 billions—6.4% under 1937 and 16.6% below the 1929 record; **wholesale sales** at $55.1 billions—18% below 1929; and **retail sales** at $42 billions—13% below 1929. Retail sales last year are estimated at $45 billions—6.8% below 1929; but somewhat above that peak year on a unit quantity basis. Even on a value basis, retail sales in the current year are expected to top 1929 and reach the highest level on record. Retail installment sales last year are estimated at $5,125 millions, against $4,200 millions in 1939. Average income per family (34,000,000 families) in 1939 was around $2,062, of which $1,236 was spent in retail stores and $826 laid out for rent, health, travel and recreation, or saved. **Department store sales** in the week ended Jan. 25 were 12% above the corresponding period a year earlier, against a 7% gain for 1940 over 1939.

* * *

1941 promises to be the best year in a decade for the **railroads,** what with the RFC promising to assist in reducing the burden of fixed charges, and shipments of heavy freight swollen by defense production. Shortage of shipping is diverting freight to the rails, and location of defense factories in areas safe from invasion rather than near supplies or markets will produce a great deal of cross-haul traffic. Some roads are expected this year to haul the greatest tonnage in their history.

* * *

Building construction costs average 4.4% above last year and are the highest since 1930.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Dec.	6,301	6,283	5,822
Pig Iron Production in tons★	Dec.	4,415	4,403	4,221
Shipments, U. S. Steel in tons★	Dec.	1,544	1,425	1,444
AUTOMOBILES				
Production				
Factory Sales	Dec.	491,250	......	469,100
Total 1st 12 Months	Dec. 31	4,676,657	......	3,732,659
Registrations				
Passenger Cars, U. S. (p)	1st 11 mos.	3,081,016	......	2,406,833
Trucks, U. S. (p)	1st 11 mos.	525,209	......	449,288
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Dec.	333.7	367.7	318.5
Shipments, U. S. & Canada★ (tons)	Dec.	361.5	......	342.9
Mill Stocks, U. S. & Canada★ (tons)	Dec.	165.8	192.6	182.5
LIQUOR (Whisky)				
Production, Gals.★	Dec.	12,265	11,761	8,060
Withdrawn, Gals.★	Dec.	7,331	10,529	7,683
Stocks, Gals.★	Dec.	479,102	475,611	465,025
GENERAL				
Paperboard, new orders (st)	Nov.	426,614	486,181	414,224
Machine Tool Operations	Dec.	96.8	95.4	93.3
Railway Equipment Orders (Ry)				
Locomotive	Nov.	40	30	41
Freight Cars	Nov.	9,026	11,786	17,698
Passenger Cars	Nov.	10	67	8
Cigarette Production†	Dec.	13,815	14,347	12,803
Bituminous Coal Production★ (tons)	Dec.	40,600	40,012	38,066
Portland Cement Shipments★ (bb'ls)	Dec.	8,192	10,372r	6,785
Commercial Failures (c)	Dec.	1,086	1,024	1,153

PRESENT POSITION AND OUTLOOK

Domestic retail sales of **automobiles** in the first ten days of January were 21% above the like period a year earlier, compared with a 26% increase for all of 1940. Though the New York annual automobile show will not be held this year and model changes will be fewer this autumn, several companies will shortly bring out new models and best informed opinion in the industry inclines to the belief that there will be no great curtailment in production before end of the 1941 model year.

* * *

Cigarette withdrawals in December were 7.9% above the like 1939 period, against only 4.8% for the full year. **Whisky** inventories on Jan. 1 were 7% larger than a year earlier. **Portland cement** production during December was 17.5% above the like month of 1939 and shipments were up 20.7%. **Newsprint** consumption last year was 4.6% ahead of 1939.

* * *

Bituminous coal production for the year to Jan. 18 was 13.4% below the like period of 1940; but output for the current quarter is expected to show a 5% increase, owing to fears of a strike in the industry this spring. Since the stampede for **lumber** appears to have passed its peak, Defense Commissioner Henderson's warning that prices are too high is likely to prove effective.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Jan. 25	110.2	109.8	97.8
ELECTRIC POWER OUTPUT K.W.H.†	Jan. 25	2,830	2,844	2,566
TRANSPORTATION				
Carloadings, total	Jan. 25	710,752	700,440	649,488
Grain	Jan. 25	30,772	31,287	30,395
Coal	Jan. 25	154,533	146,747	171,375
Forest Products	Jan. 25	39,008	37,582	27,832
Manufacturing & Miscellaneous	Jan. 25	299,592	299,195	243,199
L. C. L. Mdse	Jan. 25	149,862	147,065	143,370
STEEL PRICES				
Pig Iron $ per ton (m)	Jan. 28	23.44	23.44	22.61
Scrap $ per ton (m)	Jan. 28	20.42	20.42	17.33
Finished c per lb. (m)	Jan. 28	2.261	2.261	2.261
STEEL OPERATIONS				
% of Capacity week ended (m)	Feb. 1	97	96.5	77.0
CAPITAL GOODS ACTIVITY (m) week ended	Jan. 25	127.0	127.8	97.2
PETROLEUM				
Average Daily Production bbls.★	Jan. 25	3,599	3,612	3,606
Crude Runs to Stills Avge. bbls.★	Jan. 25	3,625	3,490	3,436
Total Gasoline Stocks bbls.★	Jan. 25	88,762	87,351	89,144
Fuel Oil Stocks, bbls.★	Jan. 25	100,297	101,213	103,333
Crude—Mid-Cont. $ per bbl	Jan. 31	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Jan. 31	1.63	1.63	2.23
Gasoline—Refinery $ per gal	Jan. 31	.05⅝	.05⅝	.06⅝

PRESENT POSITION AND OUTLOOK

Electric power output has been sagging this year at about the normal seasonal rate, thereby rather oddly failing to confirm the further rate of expansion in general business activity. Probably this is in part because the defense program at this stage is confined more to the assembling of material for future production. Nevertheless the margin of increase over last year remains better than 10%.

* * *

Apparent drop in the **steel operating rate** since our last issue actually conceals a further increase in the total tonnage of ingots produced The seeming discrepancy arises from the circumstance that capacity upon which the operating rate is now reported has been raised to 84,148,000 net tons, the capacity on Jan. 1, as against the former base of 79,300,000 net tons, the capacity a year earlier. The industry plans to spend $282,000,000 this year on further expansion. Talk of priorities has brought in a considerable volume of orders for second and even third quarter delivery.

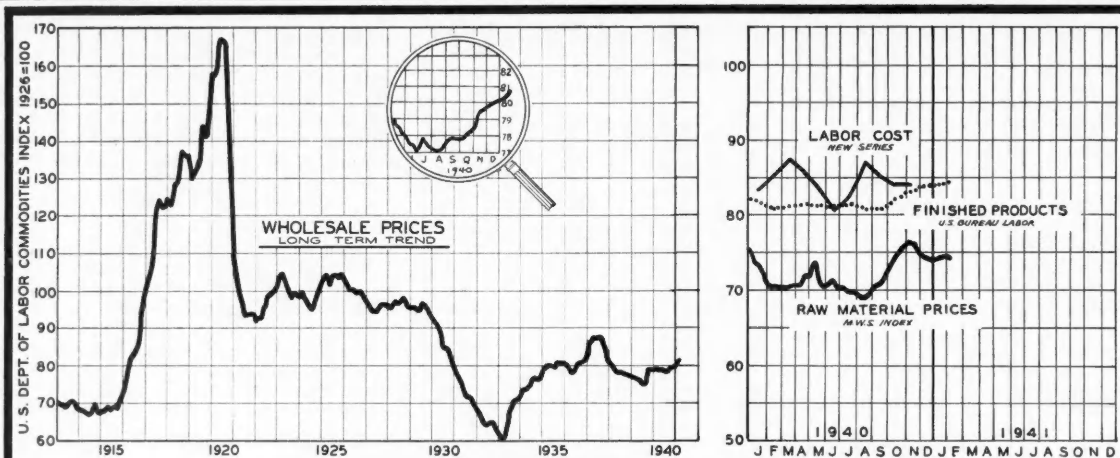
* * *

Heeding recent advice from Washington and by trade authorities, the **oil industry** is laying plans to spend around $30,000,000 on a 25% expansion in aviation **gasoline** capacity.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m) Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

The prices of a majority of basic commodities have given ground recently under the same influences responsible for the declines registered in the securities markets. Growing fears over the possible fate of Great Britain in the event of a successful invasion by the Nazis were inspired by the official remarks of Administration officials testifying before the Senate Foreign Relations Committee. The possibility of a German victory carries many implications vital to the future trend of commodity prices. While it is not likely that such an event would alter our present defense program and British contracts for armaments would doubtless be taken over by our own Government, the possible effects upon industrial inventory policies might have wide repercussions in the commodity price structure. On the other hand, the graveness of these possibilities are at least partially mitigated by the fact that there has been a substantial decline in the commodity open market interest, and there has as yet occurred no appreciable inflation of commodity prices.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1939, equals 100

	High	Low	Jan. 24	Jan. 31
	1940 — 1941			
28 Basic Commodities	124.2	105.6	121.1	119.8
Import Commodities	132.9	104.7	121.8	122.1
Domestic Commodities	120.9	105.5	120.8	118.4

	High	Low	Jan. 24	Jan. 31
	1940 — 1941			
Domestic Agricultural	131.3	111.4	131.1	127.9
Foodstuffs	120.0	100.5	119.8	117.3
Raw Industrial	128.4	101.3	121.9	121.6

	Date	Latest Wk. of Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
May	Feb. 1	10.35	10.43	10.56
July	Feb. 1	10.27	10.34	10.23
Spot	Feb. 1	10.90	10.89	11.01
(In bales 000's)				
Consumption, U. S.	Dec.	775	744	650
Exports, wk. end	Jan. 31	8	19	251
Total Exports, season Aug. 1 to	Jan. 31	577	569	3,997
Government Crop Est.	Dec. 1	12,686	12,847	11,817(ac)
Active Spindles (000's)	Dec.	22,818	22,686	22,778
WHEAT				
Price cents per bu. Chi. closing				
May	Feb. 1	81⅝	85¼	96¾
July	Feb. 1	75⅝	79⅛	94
Exports bu. (000's) since July 1 to	Jan. 25	61,431	58,382	73,950
Exports bu. (000's) wk. end	Jan. 25	3,049	1,960	5,599
Visible Supply bu. (000's) as of	Jan. 25	140,136	141,896	108,948
Gov't Crop Est. bu. (000's)	Dec. 1	816,698	792,332	754,971(ac)
CORN				
Price cents per bu. Chi. closing				
May	Feb. 1	61⅜	63	54⅞
July	Feb. 1	61½	63½	54⅞
Exports bu. (000's) since July 1 to	Jan. 25	20,705	20,705	16,583
Visible Supply bu. (000's) as of	Jan. 25	62,815	62,723	41,231
Gov't Crop Est. bu. (000's)	Dec. 1	2,449,523	2,433,523	2,619,317(ac)

PRESENT POSITION AND OUTLOOK

Cotton. For the week ending just passed, cotton futures registered losses up to 10 points from the preceding week. This, however, was a marked recovery from the lows of the week when prices were off as much as $1.50 a bale from the highs of early January. The high rate of cotton mill operations influenced trade buying thereby bringing a steadier tone to the market.

* * *

Wheat. A bearish note caused last week by the uncertainty of the course of future farm legislation and the news of good crop prospects brought about a broad liquidation move that was too strong to be stopped by what support the milling sources offered and the supposed ability of the loan to maintain prices. At present, Washington seems to be interested in the income certificate plan (a form of processing tax) and dissatisfaction with the present loan program.

* * *

Corn. A considerable portion of the corn crop should be moved with the present prospect of increase of hog breeding if the corn-hog price ratio continues as favorably as it is it has been.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Feb. 1	12.00	12.00	11.625
Export f. a. s. N. Y.	Feb. 1	10.50	10.50	11.40
Refined Prod., Domestic*	Dec.	97,035	96,283	NA
Refined Del., Domestic*	Dec.	112,671	102,483	......
Refined Stocks, Domestic*	Dec.	142,772	158,418	......
Copper Sales, Domestic*	Dec.	90,164	85,635	29,880
TIN				
Price cents per lb., N. Y.	Feb. 1	50.45	50.20	45.125
Tin Plate, price $ per box	Feb. 1	5.00	5.00	5.00
World Visible Supply† as of	Dec. 31	44,678	40,046	38,280
U. S. Deliveries†	Dec.	9,200	12,505	11,366
U. S. Visible Supply† as of	Dec.	......	26,998	15,965
LEAD				
Price cents per lb., N. Y.	Feb. 1	5.50-5.55	5.50-5.55	5.25
U. S. Production*	Dec.	61,906	57,926	45,615
U. S. Shipments*	Dec.	56,755	57,510	44,881
Stocks (tons) U. S., as of	Dec.	40,926	35,791	58,777
ZINC				
Price cents per lb., St. Louis	Feb. 1	7.25	7.25	5.50
U. S. Production*	Dec.	59,883	56,459	57,941
U. S. Shipments*	Dec.	65,385	62,295	53,468
Stocks U. S., as of*	Dec.	12,884	18,386	65,995
SILK				
Price $ per lb. Japan xx crack	Feb. 1	2.56	2.55½	3.25½
Mill Dels. U. S. (bales)	Dec.	23,113	36,374	21,128
Visible Stocks N. Y. (bales) as of	Dec.	72,248	60,330	55,610
RAYON (yarn)				
Price cents per lb.	Feb. 1	53	53	53
Consumption (a)	Dec.	34.5	35.0	32.0
Stocks as of (a)	Dec.	5.3	6.2	6.4
WOOL				
Price cents per lb. raw, fine Boston	Feb. 1	1.08	1.08	1.04
Consumption, period ending (a)	Nov. 30	33,820	39,240	26,426
HIDES				
Price cents per lb. No. 1 Packer	Feb. 1	12¾	13¼	13
Visible Stocks (000's) as of	Dec. 31	13,873	13,529	12,592
No. of Mos. Supply as of	Dec. 31	......	7.32	6.8
Boot and Shoe Production, Prs.★	Dec.	30,500	30,132	28,690
RUBBER				
Price cents per lb.	Feb. 1	19.75	19.50	18.83
Imports, U. S.†	Dec.	97,984	72,901	71,448
Consumption, U. S.†	Dec.	56,539	54,652	49,636
Stocks U. S. as of	Dec.	318,486	276,943	125,800
Tire Production (000's)	Dec.	4,999	4,838	4,469
Tire Shipments (000's)	Dec.	4,972	5,137	4,727
Tire Inventory (000's) as of	Dec.	9,179	9,118	8,665
COCOA				
Price cents per lb.	Feb. 1	5.25	5.15	5.28
Arrivals (bags 000's)	Dec.	671	369	2.71
Warehouse Stocks (bags 000's)	Jan. 31	......	......	1,560
COFFEE				
Price cents per lb. (c)	Feb. 1	8-8¼	8	7¼
Imports, season to (bags 000's)	Dec. 31	7,015	......	7,199
U. S. Visible Supply (bags 000's)	Jan. 1	2,123	1,820	1,560
SUGAR				
Price cents per lb.				
Raw	Feb. 1	2.95	2.95	2.80
Refined (Immediate Shipment)	Feb. 1	4.45	4.45	4.40
U. S. Deliveries (000's)*	12 mos.	6,785(pl)	......	6,870
U. S. Stocks (000's)* as of	Dec. 31	......	703	832

PRESENT POSITION AND OUTLOOK

Copper. Total exports of refined copper from the United States for the year 1940 declined to 356,430 tons from 372,777 tons in 1939. Japan headed the list with 116,973 tons, Great Britain second with 70,508 tons and Russia third with 54,577 tons. Washington reports that the Metals Reserve Co. had completed plans for the purchase of a second lot of 100,000 tons of Latin-American copper.

* * *

Tin. Tin plate exports for the year 1940 reached 377,217 gross tons as compared with the previous high of 360,683 gross tons in 1937. The World War high was reached in 1918 with the export of 258,538 gross tons. Reports from Singapore indicate that as of March first freight rates on tin from the Far East to the United States would be increased about 25 per cent.

* * *

Lead. As the year began domestic refined lead stocks amounted to 40,926 tons as compared with 58,777 tons a year earlier. Shipments for the full year of 1940 totaled 603,143 tons as against 555,074 tons in 1939. Total production for 1940 was 585,480 tons and in 1939 the figure was 497,991 tons.

* * *

Zinc. Imports of zinc ore (content) for 1940 jumped to 180,655 tons from 36,099 tons in 1939 while exports of slab, plates and blocks climbed to 79,090 tons from 4,515 tons. In the import column, Mexico supplied 94,123 tons and on the export side Great Britain took 36,718 tons.

* * *

Silk. The International Institute of Agriculture estimates that world production of raw silk in 1940 amounted to 93,000,000 pounds. Japan accounted for approximately 85 per cent of the total. Reports still are current of the likelihood of the Japanese Government taking over control of the silk industry so that Japan will be less dependent on the export of silk.

* * *

Wool. The Department of Commerce estimates the stocks of apparel wool in the hands of dealers and manufacturers on December 31 of 215,582,000 pounds as sub-normal. The six-year average as of the end of the year was 273,402,000 pounds. Wool consumption for 1940 is estimated at 688,869,000 pounds.

* * *

Hides. Visible supplies of leather as of the end of the year amounted to 13,873,000 pieces an increase of 876,000 over a year earlier. The December statistics reveal an increase in consumption, production, and visible supplies.

* * *

Rubber. Imports and consumption of crude rubber in 1940 reached the highest levels in history. Imports of 812,473 tons topped the high mark of 600,121 tons in 1937. Consumption of 618,350 tons in 1940 was above the previous peak of 1939 of 592,000 tons.

* * *

Coffee. Estimates place the arrivals of coffee in the United States in 1940 at a new high record of 15,554,000 bags. The Senate Foreign Relations committee has approved the Inter-American coffee agreement.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (p)—Preliminary. (rr)—Raw and refined. ★—Thousands. NA—Not available.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Feb. 1	1¼%	1¼%	1¼%
Prime Commercial Paper	Feb. 1	⅝-1%	⅝-1%	½-¾%
Call Money	Feb. 1	1%	1%	1%
Re-discount Rate, N. Y.	Feb. 1	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Jan. 25	2,925	......	2,367
Cumulative year's total to	Dec. 31	151,100	......	138,420
Bank Clearings, N. Y.	Jan. 25	3,158	......	3,004
Cumulative year's total to	Dec. 31	160,878	......	165,913
F. R. Member Banks				
Loans and Investments	Jan. 22	25,684	25,669	23,183
Commercial, Agr., Ind. Loans	Jan. 22	5,055	5,040	4,316
Brokers Loans	Jan. 22	465	462	630
Invest. in U. S. Govts	Jan. 22	9,977	9,965	8,896
Invest. in Govt. Gtd. Securities	Jan. 22	2,743	2,750	2,412
Other Securities	Jan. 22	3,677	3,674	3,339
Demand Deposits	Jan. 22	22,898	22,703	19,163
Time Deposits	Jan. 22	5,427	5,468	5,254
New York City Member Banks				
Total Loans and Invest.	Jan. 29	10,394	10,362	8,798
Comm'l Ind. and Agr. Loans	Jan. 29	1,943	1,925	1,653
Brokers Loans	Jan. 29	321	328	475
Invest. U. S. Govts	Jan. 29	4,372	4,354	3,418
Invest. in Gov't Gtd. Securities	Jan. 29	1,577	1,576	1,240
Other Securities	Jan. 29	1,391	1,390	1,214
Demand Deposits	Jan. 29	10,632	10,652	8,727
Time Deposits	Jan. 29	735	730	647
Federal Reserve Banks				
Member Bank Reserve Balance	Jan. 2	14,347	14,410	12,150
Money in Circulation	Jan. 2	8,548	8,541	7,376
Gold Stock	Jan. 2	22,110	22,089	17,931
Treasury Currency	Jan. 2	3,097	3,095	2,971
Treasury Cash	Jan. 2	2,200	2,196	2,358
Excess Reserves	Jan. 2	6,800	6,860	5,560

		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Dec.	389.3	261.2	226.6
New Capital	Dec.	61.1	92.5	30.8
Refunding	Dec.	328.2	168.7	195.8

COMMENT

The latest statement of **New York City Member Banks** revealed an increase of $18,000,000 in borrowing by commerce, industry and agriculture, bringing the total of such loans outstanding to $1,943,000,000, a new high for the past three and a half years, and only $3,000,000 under the 1937 peak. The commercial loan total of reporting banks in 101 cities passed the 1937 total several weeks ago, and while there has been an almost uninterrupted increase in the total commercial borrowings of New York banks since the first week in September, 1940, gains have lagged behind those for the country as a whole. It is probable, however, that this lag may be overcome in the near future, but the fact remains that the increases in commercial borrowings have been on a much smaller scale proportionately than might otherwise be expected on the basis of the high rate of industrial activity.

* * *

Excess reserves of Member Banks dropped $63,000,000 in the latest reported week, bringing the total drop to $100,000,000 over the past fortnight. The decline will be accelerated in the near future as banks transfer reserve funds to Treasury balances in payment for the latest issue of Defense Notes. Moreover, the fact that only 24 per cent of the currency paid into circulation from the Summer low to Christmas week has returned to the banks has had a marked effect in arresting the increase in excess reserves. Proportionately this was the smallest retirement of currency on record. Also since the first of the year only $115,000,000 has been added to gold stocks. Passage of the Lease-Lend Bill, according to George L. Harrison, will have the result of further restricting the flow of gold to the United States.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1941 Indexes High	Low	Jan. 25	Feb. 1
290 COMBINED AVERAGE	56.9	51.1	54.5	51.1
4 Agricultural Implements	92.1	79.8	84.3	79.8
9 Aircraft (1927 Cl.—100)	183.9	161.3	176.4	161.3
4 Air Lines (1934 Cl.—100)	314.1	259.0	282.5	259.0
6 Amusements	24.2	21.6	23.2	21.6
14 Automobile Accessories	95.7	83.6	91.9	83.6
13 Automobiles	11.1	9.2	9.9	9.2
3 Baking (1926 Cl.—100)	9.9	8.3	8.7	8.8
3 Business Machines	95.0	91.1	96.2	91.1
2 Bus Lines (1926 Cl.—100)	64.3	59.6	64.3	59.6
8 Chemicals	159.0	147.0	154.6	147.0
18 Construction	26.1	22.9	25.6	22.9
5 Containers	203.7	188.6	197.0	188.6
10 Copper	88.8	78.2	85.4	78.2
2 Dairy Products	27.6	25.6	26.6	26.2
6 Department Stores	19.7	17.8	18.7	17.8
6 Drugs & Toilet Articles	39.7	36.9	39.3	36.9
2 Finance Companies	182.3	170.2	173.3	170.2
7 Food Brands	82.7	77.2	81.1	77.2x
2 Food Stores	45.2	41.3	42.8	41.3
4 Furniture	42.2	39.1	40.0	39.1
2 Gold Mining	703.8	649.0	671.2	649.0
6 Investment Trusts	19.2	17.0	17.5	17.0

(Nov. 14, 1936, Close—100)	1941 Indexes High	Low	Jan. 25	Feb. 1
100 HIGH PRICED STOCKS	60.10	54.97	58.18	54.97
100 LOW PRICED STOCKS	48.23	42.52	45.68	42.52
3 Liquor (1932 Cl.—100)	148.2	132.0	139.9	132.0
9 Machinery	111.9	98.0	106.7	98.0
2 Mail Order	75.6	69.8	73.5	69.8
4 Meat Packing	53.2	46.6	53.2	47.5
11 Metals, non-Ferrous	138.6	124.5	132.4	124.5
3 Paper	13.6	12.0	13.1	12.0
21 Petroleum	74.8	69.7	72.5	69.7
18 Public Utilities	38.6	33.8	36.0	33.8
3 Radio (1927 Cl.—100)	9.9	9.2	9.5	9.2
9 Railroad Equipment	48.0	41.8	45.4	41.8
17 Railroads	8.6	7.7	8.6	8.0
2 Realty	2.6	1.8	2.1	2.1
2 Shipbuilding	127.5	108.6	118.8	108.6
12 Steel & Iron	82.6	71.6	78.4	71.6
2 Sugar	20.4	18.4	20.0	18.7
2 Sulphur	185.7	173.5	185.7	173.5
3 Telephone & Telegraph	40.7	33.9	38.1	35.3
2 Textiles	48.5	42.6	47.1	42.6
3 Tires & Rubber	11.7	10.0	11.4	10.0
4 Tobacco	73.7	71.2	72.9	71.6
3 Variety Stores	213.7	204.7	212.0	204.7
19 Unclassified (1940 Cl.—100)	105.7	94.8	101.0	94.8

L—New LOW since 1935. x—New 1940-1 LOW.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries an any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

National Dairy Products Corp.

For the past two years National Dairy has done no better than approximately 18 nor worse than around 12. I bought my 100 shares at 26¾ for appreciation as well as moderate income—and weary at the prospect of going through 1941 with National Dairy doing no better marketwise than the past two years. Please give me your frank opinion of this stock's appreciation prospects . . . the possibilities of its topping last year's high and the reason supporting your beliefs. Will you also tell me whether fluid milk earnings are showing signs of improvement? Current outlook for its ice cream and cheese lines? Is it still too early for common shareholders to realize the beneficial effects of the company's refinancing program?—L. J. J., Washington, D. C.

Notwithstanding higher taxes, increased costs of distribution, a decline in revenue from ice-cream sales and further diminution in fluid milk profits, National Dairy Products maintains leadership in the industry with larger volume of business. Earnings could quickly reflect this improvement with any return to better profit margins. For 1940 earnings are estimated at $1.60 to $1.70 a share on the common stock which compare with $1.97 for 1939. These figures amply cover the 80-cent dividend, although any increase in this rate is a matter of conjecture.

Growing competition, due in part to excess milk production, together with Government regulation, have affected profit margins in fluid milk operations. Cheese and ice-cream earnings trend has been more favorable and contributes a much larger share to profits than to sales. Of total sales, ice-cream and cheese account for roughly 37 per cent; fluid milk about 29 per cent; butter nearly 10 per cent; cream close to 6 per cent; and the remaining 18 per cent to other products. Increase in the export demand for canned milk and a generally anticipated rise in domestic purchasing power may be felt to some extent in coming months.

New financing at lower interest and redemption of outstanding preferred stock is another step in a conservative policy of continually strengthening the company's financial position. With completion of this program, capitalization will consist of $55,000,000 of 3¼ per cent debentures due in 1960; $15,000,000 of 0.375 to 2.10 per cent serial debentures due 1941 to 1950; and 6,255,247 shares of no par common stock. It is questionable whether the improvement in this direction can offset other adverse factors to the marked advantage of common shareholders.

A recent note in the diversified activities of large milk concerns is the news that National Dairy has developed a process for the manufacture of a textile from skimmed milk as suitable as natural wool. The perfection of the fabric, practical for apparel and automobile uses, is expected in the near future. Tests find the new material equal in wearing qualities to other similar textiles. In the opinion of some, however, profit possibilities from milk textiles do not warrant large capital expenditures at this time.

Granted that prospects for price appreciation are rather limited, the stock is worthy of retention on an investment basis. It offers a safe and satisfactory return at prevailing market prices and negligible vulnerability to excess-profits taxes.

Sears, Roebuck & Co.

I bought 50 shares of Sears, Roebuck in 1939 at 84 and received a dividend of $4.25. The current price of this stock and dividend payments to date, both under 1939, prompt me to ask your security experts whether the investment status of this stock is being undermined because of taxes, perhaps, and its appreciation prospects handicapped as a consequence. Would you advise me to sell and switch into some dynamic investment issue engaged in defense production? Or do you feel that Sears, Roebuck should do as well or better than direct defense beneficiaries as the U. S. spending program filters through to the consumer? Are Sears' sales holding up in rural markets as well as in industrial areas? In both catalog and store divisions? How have earnings been affected by lower catalog prices? Have sales suffered noticeably as a result of the draft?—Mrs. T. M., New York, N. Y.

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.

The war hardly affects retail trade and in the possible exceptions the influence may be considered nil. A by-product of the national defense program, on the other hand, is greater business activity and increased consumer purchasing power, urban and rural, which will expand retail trade sales volume. Higher merchandise and wage costs, together with higher taxes will accompany this rise and offset to some degree, at least, the benefits accruing to the industry.

Sears, Roebuck & Co. is the largest mail-order house and retail distributor. Sixty per cent of the company's business comes from its store system, which has been expanded to over 500 units in forty-five states. Five per cent of the goods sold is produced in company-owned manufacturing plants and many products carry the company trade name. Business is done mostly on a cash basis but installment credit is extended on purchases exceeding ten dollars. Mail-orders are handled by nine branches strategically located and adapted to this phase of the business. The Fall and Winter catalog, mailed to some seven million customers, reveals an average price reduction of 1.48 per cent.

Estimates for the fiscal year ended January 31, 1941 vary from $6.25 to $6.50 a share after taxes, as against $6.60 last year. Although total sales for eleven months surpass figures for the full year 1939-40, increased taxes are responsible for the reduction in net income. A greater number of outlets concentrated in large industrial centers with higher pay-rolls gives the company some edge over others in the field. Farm income is, nevertheless, also an important factor in earnings. The first half of 1941-42 should equal a year ago and assure continuation of the $3 dividend rate. Greater rural and industrial purchasing power will be reflected in increased sales for some time to come and business will not suffer from the draft. Inventories are running heavier than ordinarily and the company has some protection against immediate wholesale price rises. Since wages and taxes are pacing business, profits will probably approximate 1940 results.

Financial programs have been consistently conservative and a strong position maintained. In recent years, due mainly to business growth and less need for capital expansion, a more liberal dividend policy has been followed. The regular $3 dividend rate has been augmented by an extra of $1.25 in 1939 and 1940. Switching to a dynamic beneficiary of the defense program may have greater appeal from a speculative view but we are inclined to advise retention. One of the best situated stocks in the retail industry, it merits representation in well-balanced portfolios. The relatively safe yield is attractive for investment reasons, while a market advance should see Sears, Roebuck enjoying its share of price appreciation.

Philip Morris & Co.

For the six months ended September, 1940, you informed me that there was a 44 cents per share loss in earnings for Philip Morris as compared with the same period of 1939. Has there been any improvement in earnings since September? To what extent? Is "Philip Morris" losing out competitively now? Has the company's "Dunhill" (large size) cigarette taken hold? Have its markets been extended with success? How are sales being currently reported on such of the company's brands as Marlboro, English Ovals, Paul Jones, its 10 cents brand, and smoking tobaccos, Revelation, Puritan and Bond Street? I bought my 50 shares at 87, and would like your evaluation of this stock's appreciation and income prospects now?—Dr. M. J. S., Duluth, Minn.

Relatively low costs of tobacco and a continuing growth in consumption, probably augmented by anticipated increase in public purchasing power, are factors favoring the industry today. However, without benefiting directly from any armament business, cigarette manufacturers will suffer from heavier taxes imposed to finance the defense program. These higher levies are not likely to be offset by corresponding reduction in costs and increased cigarette sales. Thus, most companies can be expected to report lower earnings for 1940.

For the first time since the fiscal year ending March 31, 1934, the trend in earnings of Philip Morris & Co., Ltd. may be lower because of tax increases. The normal corporate income tax has been raised from 18 per cent to 24 per cent and on top of this comes the excess-profits levy. The spectacular rise in sales and earnings in late years now puts the company in a position to feel the impact of the excess-profits tax probably more severely than others.

In computing its tax, no doubt the company will select the average earnings method. Average earnings for the four-year base period approximate $5,800,000. Net income, before Federal taxes, in the last fiscal year was nearly $9,031,000. Allowing for increased normal income tax and excess-profits tax at present rates, net income for this year before taxes would require a rise of some $3,000,000, or a total income of $12,000,000, to keep abreast of a year ago. Since accomplishment of this end is not likely, a recession in 1941 net income is almost inevitable.

The company's output for 1940 is said to have exceeded 13,000,000,000 cigarettes, against 11,000,000,000 in 1939 (18.2 per cent increase) and 9,400,000,000 in 1938 (38.3 per cent rise). Philip Morris cigarettes provide 85 per cent of the earnings while the new large Dunhill cigarette, introduced in only a few major cities, has recorded steady gains. Its other brands including Bond Street and Revelation smoking mixtures will probably continue to gain. Despite the improvement in volume of business, the effects of taxes is reflected in the report for the six months ended September 30, 1940. Earnings for this period were $3.96 per share, as against $4.40 for the same period of 1939. Prospects for the future indicate a continuation of this trend, although full year earnings may reach $7.50 a share or better and we see no threat to the present dividend.

New financing is contemplated by the company according to latest reports. At a special meeting, called for February 14, 1941, stockholders will be asked to approve a proposal to issue some $15,000,000 of cumulative preferred stock. Common shareholders will have the privilege of subscribing at the ratio of one new preferred share for each six common now held. Proceeds are to be applied to approximately $11,00,000 bank loans and the balance added to working capital. Dividend rate, redemption price and other features will be determined at a later date.

In a broad market rise the common shares of Philip Morris & Co., Ltd. should participate but as an investment the stock has a greater appeal and on this basis is worthy of retention.

Lehn & Fink

Can your security analysts clarify my doubts regarding the outlook for Lehn & Fink—and the advisability of holding my 50 shares which I purchased at 17¾? Does the major portion of this company's income accrue from its cosmetic products? What are the possibilities that the excise tax on cosmetics will be further increased? What is the current status of sales and outlook of such of its brands as Dorothy Gray cosmetics? Isn't it likely that the increase in consumer purchasing power should offset a reduction in net resulting from increased taxation? Are the company's Lysol and other drug manufactures benefiting from orders coming from the U. S. Army and Navy, Britain and Canada? What progress is the company making in South American markets?—E. S., Salt Lake City, Utah.

The industry embracing medicines, drugs, cosmetics, etc. reports sales of drugs in the first quarter of 1941 promising to run about five per cent higher than last year. A similar increase was recorded in the full year 1940 over 1939. Part of the increase is due to elimination of Germany in South American markets to the advantage of the United States producers. Canadian and Australian markets have also been stimulated by war conditions. Offset by higher taxes and costs, however, profit for most companies for 1940 and 1941 will remain on about par with 1939. Relative stability of earnings in recent years eliminates any liability to excess-profits tax.

The proposed revision of the Federal tax structure will, no doubt, include higher excise levies on cosmetics. Added to the necessarily heavier advertising expenditure to maintain a standing for individual products against strong competition, the future can only offer stability in earnings rather than any extended growth. The industry would be faced with still another threat should excess-profits taxes be based solely on invested capital on which substantial rates of return have been realized.

Products of Lehn & Fink are "Lysol" disinfectant, "Dorothy Gray" cosmetics, "Hinds" honey & almond cream, "Pebeco" toothpaste and others of lesser importance. Markets for "Lysol," the largest single item contributing to sales, have been fully developed and further expansion possibilities are limited. The cosmetics and sundry items are in a highly competitive market and depend to a great extent on costly promotional activities. Foreign interests have proven unprofitable in late years aside from exchange losses. Until conditions in Europe have become settled, the company intends to credit or charge results from future operations of European affiliates and exchange adjustments to a reserve fund especially provided for this purpose and to the full amount of investment in these subidiaries.

Earnings in the calendar year 1940 were $1.54 a share compared to $1.56 in 1939. The fiscal year ending June 30, 1941 is expected to continue to record a small decline from a year ago. Any gains from rising public purchasing power will be moderate and checked by heavier advertising costs and higher taxes. Working capital is ample and capitalization consists solely of 400,000 shares of $5 per common stock. A liberal dividend policy, taking the greater share of earnings, is attractive for nominal holdings on an income basis but prospects ahead tend to divest the stock of price appreciation appeal.

Glidden Co.

In 1939 I paid 20⅛ for my 50 shares of Glidden common and the stock moved to 24½. From what I can gather, earnings for the past year equaled 1939 and prospects now from the paint and varnish divisions are better than they ever were, yet this stock stands around 15. I should like to get at the basis of this market behavior with your help. Will you please tell me to what extent Glidden Company is benefiting from the U. S. Defense Program, especially in the chemical lines? Are sales of good products responding to the rise in consumer purchasing power? What is the relation of raw material prices to finished products prices? Is the company receiving Government orders for its naval stores products . . . powdered metals, especially powdered iron? Do you advise continued retention for substantial appreciation?—E. T., Lubbock, Texas.

Glidden Co. makes vegetable oil products and manufactures paints, varnishes and certain other chemicals. Among the oils are linseed, cocoanut, cottonseed and soybean. Margarine, mayonnaise, salad dressing and spices comprise most of its food products. Lithopone, white and red lead, titanium dioxide are some of its chemicals. Foods usually make up about half of sales but paints and chemicals contribute more than half to earnings. Export trade is small and importation of raw materials is negligible and from other than European sources. Twenty-nine plants here and one in Canada, together with twenty-four retail paint stores constitute the company's production and distribution facilities. Sales from food usually maintain a constant level but the dominant factor affecting profits is the business of the chemical and paint divisions. Price changes in these commodities and inventory variations following business trends account for irregular earnings. The reduced income in 1937-38, when profits failed to cover preferred dividends, graphically reflects these conditions, while a good recovery was staged in the 1938-39 interval.

The revival in business activity and the increased purchasing power resulting from the national defense program will benefit sales of paints and chemicals and an uptrend in commodity prices would tend to widen profit margins, allowing favorable comparisons and perhaps even permitting inventory profits sufficient to offset tax rises. Earnings of $1.56 a common share for the fiscal year ending October 31, 1940 may be exceeded in 1941. At the start of the present fiscal year, November 1, 1940, sales in food products and paints and varnishes were running about 5 per cent ahead of a year ago. Lately, better profits have been recorded by sales in the food division.

A refinancing program was completed in November and replaced bank loans totaling $3,750,000 with $1,500,000 notes bearing 1¾ per cent interest maturing July 1, 1946; $1,000,000 1½ per cent notes also due July 1, 1946; and $1,000,000 short-term ¾ per cent notes. The savings to the company amounts to about $160,000 over the entire term, or approximately $48,750 during the current year. This improvement should be reflected in future earnings.

A new process developed by Glidden for producing powdered iron is being used on a commercial basis at its Hammond, Indiana plant. The blockade has virtually eliminated Swedish sources of this material. Consumption of powdered iron in United States varies from 1,000 to 2,000 tons annually according to estimates and it is believed that the cost of the domestic product can compete with the foreign low price of 8 to 10 cents a pound. Glidden's capacity is

also expected to match any foreign competition. Powdered metals date back to 1932, beginning with lead, followed later by copper and tin. Increased activity in the automobile, aircraft, railroad and several other industries will be further reflected in better business for Glidden. Those products referred to as naval stores will assume a more vital and important role as national defense takes shape and expands.

Capitalization consists of: $3,500,000 of the above mentioned long-term notes; 199,940 shares ($50 par) 4½ per cent cumulative convertible preferred stock, redeemable at $52.50 and convertible into 8/10 of a share of common stock up to March 1, 1941 and 7/10 of a share after that date; 818,920 shares of no par common stock. Conservative dividends are probable and the stock has possibilities for some appreciation.

Mid-Continent Petroleum Corp.

I am a new subscriber and would like to secure the benefits of your analysts advice on Mid-Continent Petroleum of which I hold 100 shares at 23. What is the total estimate of this company's earnings for 1940? Are 1941 prospects, in view of lower prices for lubricating oils, expected to fall under last year? Are volume and gasoline prices in the company's Mid-West markets holding up? Appraising the earnings outlook for all of the company's operations, what decision do you come to on dividend and appreciation possibilities for this stock over the near term? Has the company begun to feel the effects of an unearned demand for industrial fuel oil as a result of defense activity—and enhanced sales of high octanegasoline for aircraft use? Air-mail your reply. You may also publish question and answer in your magazine.—J. S., Miami.

Threatened expensive anti-trust suit against the oil industry and legislation for Federal control are existing uncertainties but no immediate solution to the problem is likely. The pending Cole Bill, aiming at conservation of a vital necessity, would establish a petroleum conservation office authorized to investigate and determine the amount of excess or waste in the production of oil and gas. Apparently both desirable and reasonable the significance to the industry lies in the fact that such control would also involve price control and is apt to put the whole matter under purely political regulation and Federal domination. Many are now working toward the end of giving oil the status of a public utility because of its importance in today's mechanized society and the emergency facing the nation. Gasoline prices are the lowest in many years and export markets have been drastically curtailed yet the promise of record domestic demand and consumption of oil and oil products supports a belief that prices and earnings will rise. Thus, despite deterring factors of lengthy litigation and adverse legislation, profits in 1941 may equal or even exceed those of 1940.

Increased volume of sales and gasoline prices holding well in the Middle West area where Mid-Continent Petroleum operates indicate net income for December quarter higher than in the third quarter. A possible 30 cents a share will bring full year net to $1.65-$1.70 a share against $1.43 in 1939 and no liability to excess profit taxes is seen. The company is one of the smaller units but completely integrated with properties mainly in Oklahoma, Kansas, Texas and New Mexico, all within the United States. Distributing points are located in thirteen Southwestern and Midwestern states and serving such cities as Chicago, Omaha, Des Moines, Minneapolis and Kansas City.

A certain weakness in the company's position is seen in the difference between crude oil production and refinery requirement. As a result of proration, crude oil output is approximately half of refinery capacity which puts profit margin on an unsatisfactory price relationship. Steady crude oil prices and heavy demand for fuel oil are, at present, strong factors in the situation. Since profits depend on this ratio of crude and refined products prices, earnings in 1941 may recede slightly but dividend prospects remain about the same. Conservative in financial policy the company made improvements out of earnings and with no funded debt weathered the depression years much easier than many other larger competitors.

On September 19, 1940 the $1,000,000 refinery plant at West Tulsa was completed and production on the new lubricating motor fuel begun. A chemical product, it contains a high-heat-resisting lubricant, is almost void of sulphur compounds and lessens motor wear heaviest in winter driving. Known as D-X Lubricating Motor Fuel, the new product may effect earnings gains. Financial position of Mid-Continent Petroleum is exceptionally strong and capitalization consists of 1,857,912 shares of common stock outstanding. Continued payment of a nominal dividend out of earnings should make a desirable holding at prevailing market prices.

American Telephone

(*Continued from page* 519)

duration of control. That is, if precedents of the last affair were followed, for at that time, the Government continued to pay the stockholders dividends at the same rate which prevailed at the time of Federalization and would thus insure a continuation of the $9 dividend rate.

Ever since the beginning of the depression back in 1930, the maintenance of a $9 common stock dividend rate has been periodically questioned by stockholders and other investors. Up until now, the company has recognized the type of stockholder and their dependence upon their Telephone dividends with the result that it has been paid even when unearned.

Preliminary 1940 earnings figures indicate that American Telephone covered its dividend requirements with about 10 per cent to spare. Earnings per share were $10.07, as compared with $9.24 in 1939.

To the earnings of the subsidiaries will be added this year a substantial contribution from Western Electric Company, the wholly owned manufacturing subsidiary. To Western Electric is entrusted the manufacture of much of the equipment and accordingly, Western Electric should benefit substantially from the expansion program of the parent company and the system. It is mostly due to increased profitable operations of Western Electric that the parent's other than telephone interests reported a 71 per cent increase in profits last year. The ownership of Western Electric Co. does, however, hold some element of risk for here again is a subject that has been criticized by many rate making bodies who claim that materials purchased from the manufacturing subsidiary for use in the Bell System are too costly and it should be the net

cost to the system rather than the gross purchase price which should be utilized for rate making purposes.

American Telephone & Telegraph Company common stock has long been regarded as one of the best investments in common shares. True, the stock lacks the dynamic possibilities of others more closely geared to war conditions and for the present, at least, no great gains in earnings per share are probable but it makes up for the present in equity value and liberal dividends what it lacks in speculative appeal. For practical purposes the dividend may be considered fixed on the up side but not necessarily fixed on the down side. It is secure today and as far ahead as anyone can see—but that is not so far at the present.

New Profit Records

(*Continued from page 521*)

for heavy excess profits taxes. That would mark the most profitable year in the company's history. At the start of the current year, the backlog of unfilled orders was reported to have totaled about $8,000,000, or the equivalent of about two years' normal output. The bulk of these orders is understood to be for domestic use. The company is planning to expand its manufacturing facilities, in which connection it is not believed that any new financing is planned.

Official figures have not yet been made public, but it is certain that Sperry Corp. also entered the current year with a large bank of unfilled orders. Although the total dividends paid by the company last year were only $2 a share, the same as paid in 1939, there is scant doubt that earnings were well in excess of the 2.71 a share shown in 1939—to set a new high record. The comparative gain, however, was undoubtedly restricted by excess profits taxes.

Square D Co. (electrical equipment and aircraft precision instruments) will show earnings for 1940 at least 30 per cent higher than for 1939, and earnings on the common stock should approximate $4 a share. In 1939, net was equal to $2.95 a share. Plant expansion, involving

an outlay of $1,250,000, was completed last year.

A large majority of aircraft makers last year without question experienced the most profitable year in their history, and it is probably not news to anyone that the aircraft industry entered 1941 with sufficient orders on hand to sustain capacity operations for many months to come. United Aircraft, one of the foremost manufacturers of both planes and aircraft motors, is expected to show earnings of about $5 a share for 1940. Over the past eighteen months the company's output of motors has increased tenfold and the company was reported to have started 1941 with a total backlog of orders amounting to $430,000,000.

The past year witnessed further substantial gains in air travel and all of the leading air transport companies were able to set new records. With an increase of about 60 per cent in traffic, and a gain of 55 per cent and 7½ per cent respectively in passenger and mail revenues, it is expected that profits of Eastern Airlines will be up about 100 per cent from the 1939 level. On this basis something in excess of $3 a share would be shown on the present capitalization. It is unlikely, however, that dividends will be inaugurated in the near future.

Benefiting from both heavy automobile production and armament orders, a number of leading manufacturers of automobile equipment will be among companies setting new profit records in 1940. Bendix Aviation reported earnings for the twelve months ended December 31 last of $9,310,074, and equal to $4.42 a share on the capital stock in the same period a year ago, net was equal to $2.14 a share. At the start of 1941 the company's unfilled orders totaled $200,000,000, whereas a year ago the total was only $37,000,000. Heavy overtime payments are restricting the company's margin of profit, but the current outlook clearly favors well sustained operations and earnings. Earnings of Timken Detroit Axle not only hit a new peak in the company's fiscal year ended June 30 last, but at the present time they are running well ahead of last year —at a rate estimated to be equivalent to between $5 and $6 a share. Orders on hand assure capacity operations for some time ahead. Sales of Thompson Products increased 60 per cent last year, while estimated earnings of $1,600,000 represent a gain of about 30 per cent over the company's previous peak earnings in 1939. The company is one of the leading producers of sodium cooled valves and also makes a wide range of other aircraft parts. Present plans call for the construction of a $11,000,000 plant devoted to the manufacture of aircraft parts exclusively and to be financed by an RFC loan.

For some time now it has been the tendency of the market to all but ignore the ability of such companies as those discussed to expand their sales and earnings into record breaking territory. In normal times such evidence would lend a quality of the most dynamic nature. Regardless, however, it is concrete evidence of real progress and as such it is unlikely to be ignored indefinitely. Most certainly it offers a rather definite basis for investment decision.

Why Selective Rail Bonds Should Advance

(Continued from page 535)

passenger cars and locomotives and the steady reduction of units reported in bad repair indicate a worthwhile improvement in operating efficiency. With the properties in generally good condition, no further increase in the operating ratio should be necessary which suggests that any additional gains in receipts should find full reflection in net from operations.

While the war has reduced most of our normally large agricultural exports to a trickle, this has been more than offset by increased loadings in products of mines, lumber and miscellaneous manufactures. Largely because of that fact such systems as Northern Pacific, Chicago Great Western, Southern Railway, Atchison, Illinois Central and Southern Pacific, to name but a few of the roads tapping important agricultural sections of the country, are all enjoying some traffic gains on balance. Last year, for example, the Southern Pacific handled the largest volume of freight traffic in its history and the growth of manufacturing on the West coast and in the Southwestern sections of the country promises to add substantially to tonnage in 1941. While earning margin of this trans-continental carrier above fixed charges still is narrow, the trends seems definitely on the favorable side. Greatly increased maintenance outlays in connection with the property modernization program account in large part for failure to carry through a larger percentage of gross to net. Indications are, however, that outlays will show no further pronounced gains relative to gross, and accordingly increasing efficiency should become more apparent in earnings available for bond interest.

Northern Pacific's loadings last year increased 4.9% with the rate of gain increasing in the closing months of the year, suggesting that fixed charges were covered by the best margin since 1931. Heavy shipments of forest products account in no small measure for the gains to date, although ore traffic also was higher. The requirements of the defense program should further increase demands for these items. The road's finances continue strong, and with bond interest likely to be covered by increasing margins at least as long as our arms economy persists, we believe that the Ref. & Imp. Mtge. issues have considerable appeal from both an income and market standpoint. For the more conservatively minded, the well secured but lower income Prior Lien Ry. & Land Grant 4's of 1997 are also included.

While in former years Southern Railway was dependent in large measure upon agricultural exports, particularly cotton and grain, the road is doing exceptionally well now despite the restricted movement in these commodities currently. Industrial development in the former "cotton" states has been especially pronounced in recent years and development of Birmingham as one of the great steel centers of the country has done much to improve the outlook for the Southern Railway.

Early in the depression the Southern was confronted with rather sizable bond maturities which had to be financed through RFC loans. These have been steadily reduced, however, as a result of the subsequent improvement in earnings and in view of current and prospective earnings of the system the entire elimination of this debt seems prob-

able in the not distant future. Fixed charges are indicated to have been earned last year by the best margin since 1930. That operating efficiency has greatly increased during the past decade is attested by the fact that on approximately the same gross income in both 1931 and 1939 there was a net income of $6,487,000 in 1939 whereas in 1931 a deficit of $5,923,000 was shown.

In presenting this discussion we have not been unmindful of the continuing problems of the railroad industry in the form of a steadily increasing tax burden, high labor and material costs and growing competition from pipe lines, motor vehicles and even airplanes. Nevertheless, there seems to be little room for doubt that the rails will continue to handle the greatest bulk of commercial shipments and with the more modern equipment and methods adopted in recent years profits during a period of industrial expansion such as the present may go a long way toward reestablishing their long undermined credit position.

As I See It!

(*Continued from Page 503*)

erical inferiority in the air must have called for considerable changes in German plane manufacture. The Nazis couldn't just produce them by rubbing an Aladdin's lamp. They had to make machine tools just as we have had to do in order to meet each new development. Certainly this must have slowed down production. *To believe in Nazi infallibility is to make the same mistake Mussolini did—which may cost him his Empire, and even bring Italy under the Nazi yoke.*

As far as the rest of Germany's war equipment is concerned she will have to get across the channel first to use it; and that will be some job, I believe.

It is for that reason reports speak of a possible attempt to establish a base in unprepared Ireland as a springboard for attack against the British Isles—with the use of a deadly arsenic gas and specially trained parachutists.

In the meantime British successes in the Mediterranean and in Africa are giving the Nazis the jitters, for unless they are able to get control of the French fleet and to use French bases Britain may soon be in a position to make herself impregnable on the British Isles.

While General Weygand's speech creates some doubt as to his intentions militarily, *he tells the Germans very clearly that he is not supporting the Vichy Government but Petain personally, so that if the Germans should attempt to set up a Nazi dominated French Government in Paris, Weygand would not feel obliged to recognize its authority.*

Reports from Germany make it plain that the Nazis recognize that unless they win this year, the fight is lost, so that we can expect that no stone will be left unturned in an all-out attempt against the British Isles. Yet Hitler sounded like a worried and harassed man the other day and he has every reason to be, for so far events have produced circumstances entirely different from what the Nazis had expected.

In Our Country

In these times more than ever we are dependent on the mental flexibility and wisdom of our leaders. The opponents of the lend-lease bill do not cover themselves with glory. Too many dislike to face the facts realistically, like those who refuse to recognize that war exists because the legal formality of declaring war has been done away with, or those who stubbornly cling to outworn ideologies and seem to have lost the capacity to learn from events; or others who are just frankly partisan.

It is easy to understand the desire to minimize this handicap in these critical days when one is impatient to get on with the job on hand.

Most of us are agreed that aid to Britain gives us that essential element of time, that Nazism should be wiped off the face of the earth. And it is just as well for all of us *to recognize that as men and women we have a responsibility to do our bit to preserve justice, decency and the sanctity of agreements in this world if we wish to share in the blessings of a square deal for all men.*

Measuring the Wide Divergences in Individual Stocks

(*Continued from page 516*)

was followed by a toboggan formation and basing into the vital zone around the low twenties. Strong confirmation of the downtrend came on the war-jump of 1939 when the stock failed to clear the 1938 high. Subsequently, the stock broke to the lowest level since 1935, and in the September-November advance this year significantly failed to penetrate the January-April resistance crust. By contrast, Vanadium developed a triangle-side formation through the major part of 1938, with decisive base-penetration in November and a move in January, 1939, into the April-July, 1937, zone. The mid-1939 base, significantly, formed well above the 1938 base, setting the stage for the ultimate rise to a new high price since 1931.

Fundamental reason for these varying moves is found largely in earnings trend and growth. Whereas Vanadium in 1940 is estimated to have earned well over $4 a share, compared with $2.22 a share in 1937 and $4.91 a share in 1929, Anaconda is estimated to have earned last year somewhat less than the $3.62 a share reported for 1937, and, of course, far less than the $8.29 a share earned in 1929. Over the decade, too, copper has met increasing competition (from aluminum and other sources), while Vanadium Corp. has been making progress with new alloys, combining aluminum, silicon and vanadium for special uses. This is not to detract from Anaconda's progressiveness and high enterprise as a corporation; the company's 1940 sales were either at a record or close to a record, but the industry as a whole had difficulties to face in the form of relatively low prices for copper and loss of a portion of the export markets.

In another field — that of chain store merchandising — the divergent actions of Woolworth and G. C. Murphy provide interesting subjects. Up till early 1939, the two stocks moved along roughly similar lines, with noteworthy divergence developing when G. C. Murphy cleared its 1938-39 base, while Woolworth failed to penetrate a similar ceiling.

Diver-
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These respective signals proved trustworthy when Murphy later in 1939 cleared all plane-resistants but the 1937 inverted base. The technical pattern of steady uphill climb was maintained by G. C. Murphy until the upper zone of the 1937 ceiling was attained. The May, 1940, smash carried only to the top area of the 1938-1939 base in the instance of Murphy, but in the case of Woolworth it cracked decisively through the double bases of the long 1938-40 head-and-shoulders formation. This reverses the familiar signal of bullishness on a break through the tops of the shoulders of such a technical picture.

Again, fundamental earnings trends as affected by various factors, including the war, are explanatory factors. The Murphy record over the past decade is one of earnings rise with but few interruptions. In 1929 earnings per share were $1.55; in 1937 $5.84 and in 1940 about $6.40. Woolworth's earnings per share totaled $3.66 in 1929, $3.42 in 1937 and probably somewhat less than $3 in 1940. Heavy investments in stores in Germany and more particularly in England (company owns half the stock of Woolworth, Ltd., which operates a variety chain of 759 stores in the British Isles, while a German subsidiary operates a chain of 82 stores in that country) naturally have caused some unusual liquidation, also.

The L. S. Starrett chart is particularly interesting as exemplifying a stock outrunning the averages. Though adhering to a roughly similar trend in 1937 and 1938, the stock flashed evidence of pulling ahead of the averages in 1939 when the peak in that year cleared the crucial 1938-39 resistance zones. Confirmation of this flash was obtained late in 1940 when the stock established new highs since 1937, in strong contrast to the 290-stock index. The extraordinary boom in metal tools and precision instruments produced by the company was, of course, responsible for the favorable trend displayed by the stock.

Action of American Locomotive preferred, shown in the chart comparing its trend with that of the common stock, is representative of the outstanding market development of 1940: the phenomenal rise in marginal preferred stocks with large dividend arrears. With earn-

ings in 1940 probably the best (excluding 1937) in the entire past decade, thoughts naturally have been running to clearing arrearages either through direct cash payments or through recapitalization. In either instance, the effect would naturally be stimulating to prices, which had been exceptionally depressed. Noteworthy in regard to such preferred stocks is the fact that the low rate of return the parent company is able to earn on the capital investment is a protection now against heavy excess profits taxes.

In the case of American Locomotive preferred, dividends of $5 a share were paid in 1940, and with a large arrearage ($42.75 a share) still to be cleared away before payments would be likely on the common stock, the preferred had no difficulty in outdistancing the common stock by a wide margin.

British Empire in Transition

(*Continued from page* 513)

by the small size of the domestic market. Thus New Zealand, with the highest per capita imports in the world, is likely to continue to be dependent upon a wide variety of products from abroad.

Although India had well-established textile and processing industries even before the First World War, it was the devaluation of the rupee in 1931 and the extension of tariff protection during the depression that made possible the introduction of a host of new industries, which manufacture hundreds of products ranging from toothbrushes and electric batteries to railway cars and heavy industrial chemicals.

The Second World War has provided a strong stimulus to Indian industries in several ways. Huge purchases by the British and Indian Governments of raw materials (cotton and jute) and of foodstuffs have provided more money for the large masses of peasantry. The increased purchasing power has been already reflected in the sale of many products, such as hardware. Moreover, the control of imports, further devaluation of the rupee, and the subsiding of competition from the Continent as well as from Great Britain, have given Indian industries a dominant position in home markets such as they never enjoyed before. Many Indian industries have in fact started to export successfully to neighboring markets — to Burma, Afghanistan, British Malaya and even to the Dutch East Indies.

The British have awakened rather late to the possibility of India's becoming an important source of military supplies. Although local arsenals were supplying most of India's own military needs before the war, the importance of the strategic situation of India, as a supplier of war goods for the British forces in Africa in the West, and Malaya in the East, was realized only last year. Encouragement is now being given to the Indians to make their own airplanes, ships, automobile accessories, rubber tires, etc.

Conditions are particularly favorable to the industrialization of India —which during the Middle Ages was one of the world's most highly industrialized countries. Not only is there an enormous potential labor supply, but also natural resources and the necessary capital. Combination of coal with valuable iron ore deposits (quite comparable to those in the Lake Superior region) laid the foundation for successful heavy industries. The giant Jamshedpur plant of the Tata Iron and Steel Company is one of the lowest-cost pig iron producers in the world. Its output is, however, still small — about 1,500,000 tons. The Indian Copper Corporation smelted in 1938 about 7,000 tons of copper, fabricating it chiefly into brass products; now plant capacity is being enlarged and the output diverted into war materials. There are also rich and extensive bauxite deposits not far from the coal mines, and three aluminum smelting companies have been organized.

The progress of industrialization in Canada, Australia and the Union of South Africa is likely to bring about a better balance between agriculture and the industries, and contribute to the economic stability of those countries. Moreover, the increased British purchases are certain to be paid for in part by a repatriation of sterling debt, with the result that the future debt service will be reduced and the transfer problem eased.

However, many of the new industries in the Dominions, will have to seek external markets, and thus they will become competitors of the older industrial countries. Australia and South Africa have an opportunity to develop into industrial centers for neighboring countries which as a result of the war, are changing into important primary producers with increased purchasing power.

In India, the war expenditures, by the British, reflected in export balances and the accumulation of funds in London, are also raising the purchasing power of the natives. Domestic industries are thus being provided with expanding markets— all of which may mean the beginning of a far-reaching industrial revolution in India through which the standard of living of millions of natives will be improved.

Baldwin Locomotive

(*Continued from page* 541)

only exceeded in one full 12-month period, 1930. Since the beginning of December new business—including Government orders—has been coming in at a rate greatly in excess of shipping facilities with the result that the current order backlog is probably higher than it was two months ago. Further substantial increases in unfilled orders are probable before any decline of major proportions is experienced. The present amount of business is ample to hold operations at close to peak levels for the next several years.

The company finished a recapitalization in 1937 which left the funded debt and other obligations scaled down to approximately the present position. The funded debt now consists of $6,467,900 of 6's of 1950 in addition to which there are about 77,645 shares of $2.10 preferred stock, 1,028,338 shares of common stock and about 621,000 warrants which call for common stock at $15 a share until September 1, 1945.

Baldwin probably experienced a sharp recovery in earnings in 1940 for in the 12 months period ended September 30, last, net income of $1,213,880 was equivalent to $1.04 a share after new tax charges as compared with a loss of $614,624 in the comparable period of 1939. During the final quarter of the year ship-

ments were not only high but Midvale Co. contributed additional dividends to the amount of $614,500 and thus the last quarter's earnings were enriched by an amount equivalent to more than half of total net income for the previously reported 12 months' figures. Full year 1940 earnings were probably in the vicinity of $1.50 to $1.75 a share.

Due to recapitalization in 1937, past years' financial positions are not strictly comparable with more recent statements. The latest available balance sheet showed current assets of $22,300,000 as compared with current liabilities of slightly more than $9,000,000. Of the total current assets, about $6,590,870 was in cash while inventories amounted to $11,281,000.

From a market standpoint, Baldwin common has been doing somewhat better than average over the period of the past three years. Since the company is intimately concerned with armament business it is likely that Baldwin shares will actively follow the trend of any war markets that may develop although at all times a definite element of speculative risk will prevail.

Earnings are expected to continue to show improvement over the next several years and the gains are likely to be sufficiently large to permit the absorption of a sizable tax burden and at the same time show a fair increase over those of recent years.

The U. S. Economy Under "All Out" War Effort

(*Continued from page* 510)

money may already have seen their lows; and eventual moderate rise seems more likely than additional decline. Thus we may not be very far away—especially if we go to war —from the beginning of a gradual downward readjustment in prices of securities whose values are related directly to the money market. This applies to highest grade preferred stocks as well as to prime bonds.

The chances are that initial stock market reaction to our involvement in war would be relatively moderate because — the contingency having been long recognized — there would be scant element of real surprise and the event would have been substantially discounted in advance.

More important than the question of immediate market response would be the subsequent protracted readjustment of individual values to war conditions and war distortions. It is not humanly possible to foresee the resultant divergences and cross currents—since so much depends upon still undetermined Federal tax policy and method.

A few general convictions—necessarily representing the writer's far from infallible opinions—can be advanced. First, a sustained bull market trend in the averages will be improbable. More likely is continuation of a broad trading range pattern, as has prevailed for more than two years, characterized by selectivity in unusually pronounced degree and by occasional sharp and short-lived swings in the averages.

Second, medium grade and speculative preferred stocks and bonds which are favored by enhanced corporate earning power will probably fare better than the great majority of common stocks. This is because both types of securities have a closer claim on earnings than have equities, and because bond interest is a prior charge to income taxes.

Third, all common stocks will continue to be valued in abnormally low ratio to business volume and to earnings per share.

Fourth, tax uncertainty will not be more than temporarily clarified by the passage of any single new tax measure. There were two increases in Federal taxes last year. The tax legislation to be formulated after the March 15 returns are footed up will very likely be followed by another upward change within a year and there may be further revision by next autumn. More rigorous application of the principle of excess profits taxation would tend to put a ceiling on earnings of cyclical equities. No one can guess how far that ceiling is above present earning power—if it is above it at all.

Fifth, profits on British war orders have been generally higher than on U. S. armament orders. But British buying power is nearing exhaustion and the Federal Government in the not distant future will be financing all armament work handled by American industry or almost all. Quite aside from taxes, profit margins on Government orders will be narrower than those on more flexible normal peace business.

Sixth, due to higher taxes, higher operating costs, need for greater working capital and the tendency to set up abnormally large reserves in uncertain times, dividend policy will lean generally to the conservative.

Seventh, intermediate fluctuations in the market averages will correspond to fluctuations in the fears and hopes of investors and traders far more than to changes in business volume and earnings. And the general market level probably will continue to be lower in relationship to business volume than in relationship to current earning power, reflecting doubt as to future profits after taxes.

Bearing significantly on the latter point, a few ratio statistics are in order. At this writing, dividing our weekly index of 290 stocks by the Reserve Board production index, we note a ratio figure of approximately 38 for the market. It was 101 at the market high in 1937, 51 at the market's depression low in 1938, 58 at the top of the war rally in the autumn of 1939, 44 at the market's 1933 low and 33 at the 1932 market low. In other words, the general market today is lower in relation to industrial volume than at any time for which we have reliable records excepting the summer of 1932!

As for earning power, a composite estimated index for 200 large industrial companies stands at approximately 88 for the fourth quarter, against 101 for the fourth quarter of 1939. This means that on the year-to-year comparison there was a decline of nearly 13 per cent, although industrial production was more than 7 per cent higher.

The market's ratio to this quarterly earnings index at present is approximately 60, as compared with 122 at the 1937 market high and approximately 71 at the fourth quarter market high in 1939.

In this article we have sketched the realities as we see them, yet a completely defeatist attitude by the investor is by no means called for or justified. The market will continue periodically to over-discount its worries and alarms, providing attractive opportunities to purchase carefully selected securities for intermediate appreciation.

Moreover, abnormal times carry with them the abnormal compensation of unusually high, yet reasonably secure, yields on many securi-

ties. Because of this, it is possible to hold a substantial portion of any given investment fund in cash, yet obtain from selective investment of the balance a yield equivalent to virtually normal return on the whole fund.

This compromise technique between defensive and offensive investment strategy is so well worth exploring that we are presenting a special article on it in our February 22 issue.

The Bank Stocks

(*Continued from page* 539)

to be any near term heavy demand for cash which would tend to reduce cash reserves of the banks by a wide margin. Moreover, most Government securities are acceptable collateral for rediscount operations and due to the operation of the Social Security Fund, the R F C and the F D I C any sizable offerings of Government bonds could quickly be absorbed without major disturbance of the normal Federal bond market. Then too, many of the banks make a practice of writing Federal bonds purchased at a premium down to par as soon as they are taken in and the continued tax exempt feature will hold the market up at high levels as private capital seeks further protection from taxation.

Another general uncertainty which would have little effect upon the assets of the banks is inflation. Banks deal solely in dollars as commodities. The dollar obligations both incurred and extended are payable in dollars regardless of the dollar's purchasing power or actual value in other economic terms.

So far, most of the factors developed have been favorable to the banks and their longer term prospects. There is however, one longer term contingency that may eventually restrict banks and their earning power. This is a possible Federalization of all banks in the event of war or other national calamity. The recent Federal Reserve Bank's proposals show that there is some desire to increase the Federal control over banks although it is not probable that anything will soon be done. Since many "impossible" things have happened during the past 8 years it would not be fitting to say that "all-out" control of the banks by the Government cannot happen here. However, such an action is not now in sight.

War conditions have made many changes in the foreign banking systems but even in the most drastic cases of England and Germany, control of the banks—while strict and out of keeping with our democratic ideas—has not completely eliminated the profit factor of banking operations for the benefit of private interests even though, in the case of Germany, dividend payments have been limited to an arbitrary figure by law. If one stops to think of the matter, our banks are already fairly well under Government control so that a little more supervision would hardly be noticeable for the present.

The **bank shares—as typified** by the market values of representative New York banks' stocks—have made a relatively poor recovery from their depression lows when compared with most other classifications of securities. The lag has been occasioned by the slower gains in bank profits than in more volatile industries. Now that the prospects for better bank earnings are becoming more clearly defined it is possible that selected bank stock will offer better than average appreciation possibilities while at the same time regaining some of their old-time investment prestige. Certainly, with the normal earning power of the banks offering a cushion for the eventual let-down in industrial earning power, it is probable that bank shares will render a better than average market performance at such a time.

Liquors

(*Continued from page* 529)

along to the consumer on the whole, but the current tax of $3 a gallon by comparison with other emergency periods is not regarded as particularly high. In the World War, this tax reached a top of $6.40 a gallon. States, too, may turn increasingly to liquor taxes as a means of raising income.

Should taxes be advanced, say 25%, this would entail working capital problems (and so affect dividend policies), in that it would necessitate an increase in required net working capital. Another problem relates to the effect of conscription on liquor consumption, though a balancer in this instance may come from the anticipated high level of general purchasing power. Consumption, of course, would be affected by materially higher taxes, since these could hardly be passed on in entirety without affecting sales.

The tax uncertainty makes earnings forecasts for 1941 difficult, though the preliminary prospect indicates relative stability. In the event that the excess profits tax be shifted entirely to the invested capital base, the industry would not fare well, since as a general run the trade has been taking the average earnings option as more advantageous in computing excess profits taxes. For the time being, indications are that dividends for 1941 will be maintained around the 1940 level.

Happening in Washington

(*Continued from page* 507)

No more tax-exempt securities, either new or refunding, will be issued by the Treasury, though outstanding issues will not be affected. If this requires slightly higher interest rates it will be more than compensated by increased tax revenues. Another purpose of the change is to smoke out investors who have been "avoiding" taxes by keeping their money in Government bonds, and to make commercial investments more attractive by comparison. Later in the session Congress will have to wrestle with the proposal to apply Federal taxes to income from state and municipal bonds and let the states apply their income taxes to Federal issues.

While heavy borrowing will continue for at least two more years, the policy is to finance an increasing proportion of the budget from taxes and to build now a tax structure which will wipe out the deficit when national incomes hits new highs. Congress appears to be in a mood for boosting taxes and House and Senate committees are certainly no less amenable to Treasury influence than before, so the prospect is pretty certain for higher Federal taxes all up and down the line.

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